

Hawaii Public Housing Authority

Financial Statements

June 30, 2019

Together with Independent Auditor's Report

Submitted by

**THE AUDITOR
STATE OF HAWAII**

Table of Contents

	Page
Independent Auditor's Report	3-5
Management's Discussion and Analysis	6-19
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	20-21
Statement of Activities	22
Governmental Fund Financial Statements:	
Balance Sheet - Governmental Funds	23
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	24
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	25
Reconciliation of the Change in Fund Balances of Governmental Funds to the Statement of Activities	26
Proprietary Funds:	
Statement of Net Position - Proprietary Funds	27-28
Reconciliation of the Proprietary Funds Net Position to the Statement of Net Position	29
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	30-31
Reconciliation of the Change in Net Position of the Proprietary Funds to the Statement of Activities	32
Statement of Cash Flows - Proprietary Funds	33-35
Notes to the Basic Financial Statements	36-78

Table of Contents (continued)

	Page
Required Supplementary Information Other Than Management's Discussion and Analysis:	
Budgetary Comparison Schedule – Major Governmental Funds	80-81
Budgetary Comparison Schedule – Budget-to-GAAP Reconciliation	82
Schedule of the Authority's Proportionate Share of the Net Pension Liability	83
Schedule of the Authority's Pension Contributions	84
Notes to the Schedule of the Authority's Pension Contributions	85
Schedule of the Authority's Proportionate Share of the Changes in Net Other Post Employment Benefits (OPEB) Liability and Related Ratios	86
Schedule of the Authority's OPEB Contributions	87
Notes to the Schedule of the Authority's OPEB Contributions	88
Supplementary Information:	
Combining Statement of Net Position – Nonmajor Other Enterprise Funds	90-91
Combining Statement of Revenues and Expenses – Nonmajor Other Enterprise Funds	92
Combining Statement of Changes in Net Position – Nonmajor Other Enterprise Funds	93
Combining Statement of Cash Flows – Nonmajor Other Enterprise Funds	94-95
Combining Statement of Net Position – Internal Service Funds	96
Combining Statement of Revenues and Expenses and Changes in Net Position – Internal Service Funds	97
Combining Statement of Cash Flows – Internal Service Funds	98-99
Reconciliation of Cash	100-101



A Hawaii Limited Liability Partnership

Independent Auditor's Report

The Auditor
State of Hawaii

Board of Directors
Hawaii Public Housing Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hawaii Public Housing Authority (Authority), as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position, changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate other fund information of the State of Hawaii that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2019, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 19, the Budgetary Comparison schedules, Schedule of the Authority's Proportionate Share of the Net Pension Liability, Schedule of the Authority's Pension Contributions, Schedule of the Authority's Proportionate Share of the Changes in Net Other Post Employment Benefits (OPEB) Liability and Related Ratios and Schedule of the Authority's OPEB Contributions on pages 80 to 88 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Combining Financial Statements of Nonmajor Other Enterprise and Internal Service Funds and Reconciliation of Cash schedules on pages 90 – 101 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Financial Statements of Nonmajor Other Enterprise and Internal Service Funds and Reconciliation of Cash schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Financial Statements of Nonmajor Other Enterprise and Internal Service Funds and Reconciliation of Cash schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii
December 19, 2019

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2019

The Management Discussion and Analysis (MD&A) provides the highlights of the Hawaii Public Housing Authority's (HPHA) financial performance for the fiscal year ended June 30, 2019. The HPHA's MD&A is designed to: focus on significant financial issues; review the HPHA's financial activity; highlight changes in the HPHA's financial position (its ability to address the next and subsequent year challenges); and identify individual fund issues or concerns. Since the MD&A is designed to focus on the financial activities of the HPHA for the fiscal year ended June 30, 2019, readers should review this in conjunction with the financial statements that follow.

INTRODUCTION

The HPHA is a full service agency attached to the State's Department of Human Services for administrative purposes only. The HPHA's Board of Directors consists of eleven members, of whom nine are public members appointed by the Governor. Public members are appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai. One public member must be an advocate for low-income or homeless persons. One public member must be a person with a disability or an advocate for persons with disabilities. As required by federal statutes, at least one public member shall be a person who is directly assisted by the authority under the federal low-rent public housing or federal section 8 tenant-based housing assistance payments program while serving on the board. The Director of the Department of Human Services and the Governor's designee are ex-officio voting members. All HPHA board actions are taken by the affirmative vote of at least six members.

During the audited period of July 1, 2018 to June 30, 2019, the HPHA administered the following programs:

- Federal public housing programs
The HPHA administered over 5,300 federal public housing units in Hawaii with funds received from the United States Department of Housing and Urban Development (HUD).
- State public housing programs
The HPHA administered over 860 state public housing family units and elderly housing developed with State funds.
- Federal and State rent subsidy programs
The HPHA administered two federally funded rental assistance programs - Section 8 Housing Choice Voucher Program and Veterans Affairs Supportive Housing Program, and the State funded rental assistance program, subsidizing monthly rental payments to qualified households.

Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2019

- Federal rental assistance program
HPHA manages a Special Allocation Program which administers a project based program under a contract with the federal government through a subcontract, Contract Management Services (a subsidiary of the Bremerton Housing Authority).

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the assets of the HPHA exceeded its liabilities by \$487.16 million. Of this amount, \$371.08 million was invested in capital assets. (As detailed on *Government-Wide Statement of Net Position*, pages 20 and 21)
- The HPHA's government wide net position increased by \$7.88 million. The increase is a result of the following offsetting activities in governmental activities and business-type activities:
 - a. Governmental activities - decrease in net position of \$10.86 million is affected by State allotted appropriations of \$31.61 million (net of lapsed funds of \$0.76 million), capital expenditure/outlay of \$30.48 million and transfers-out of \$9.49 million (as detailed on *Government-Wide Statement of Activities*, page 22).
 - b. Business-type activities - increase in net position of \$18.73 million (as detailed on *Government-Wide Statement of Activities*, page 22) is due to capital contributions of \$30.10 million and net transfers-in of \$9.49 million from Governmental activities, offset by a loss before transfers of \$20.86 million.

The capital contribution is related to the Capital Project and General funds current year capital outlay (as detailed on *Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances*, page 25) expended for the benefit of business-type activities.

The \$9.49 million of net operating transfers-in is distributed as: \$2.68 million for State rental housing programs to cover operating shortfalls, \$3.04 million for federal low rent program's security services and utilities, and \$3.78 million for central office cost center. (as detailed on *Proprietary Funds, Statement of Revenues, Expenses, and Changes in Net Position*, pages 30 and 31).

The loss before transfers of \$20.86 million is primarily due to higher administrative expenses, security services and repair and maintenance costs (as detailed on *Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position*, pages 30 and 31).

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2019

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the HPHA's basic financial statements. The HPHA's basic financial statements comprise of three components:

- 1) Government-wide financial statements;
- 2) Governmental fund financial statements; and
- 3) Proprietary fund financial statements.

Supplemental information in addition to the basic financial statements is provided. The financial statements summarize, at an aggregate level, over 650,000 financial transactions during fiscal year 2019, or approximately 2,000 transactions per working day.

Government-wide Financial Statements: The *government-wide financial statements* are designed to provide readers with a broad overview of the HPHA's finances in a manner similar to a private-sector business. The two government-wide financial statements – *Statement of Net Position* and the *Statement of Activities* provide both long-term and short-term information about the HPHA's overall financial status.

The *Statement of Net Position* presents information on all of the HPHA's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. The statement displays the financial position of the HPHA. Over time, increases or decreases in net position may serve as an indicator of whether the HPHA's financial position is improving or deteriorating.

The *Statement of Activities* shows how the HPHA's net position changed as a result of the year's activities. The statement uses the accrual basis of accounting, similar to the accounting method used by private-sector businesses. All of the revenues and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies program revenues and expenses for each type of activity.

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2019

The government-wide financial statements of the HPHA are divided into two categories:

- **Governmental activities.** The activities in this section are primarily supported by State appropriations and by HUD contributions, and focus on money flow into and out of those funds and the balances left at year-end. The governmental funds statements – the *Balance Sheet* and the *Statement of Revenues, Expenditures and Changes in Fund Balances* – are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The governmental fund statements provide a detailed short-term view to help determine whether there are more or fewer financial resources to finance the HPHA’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided to explain the relationship (or differences) between them.
- **Business-type activities.** Business type activities (also referred to as “proprietary funds”) are financed and operated in a manner similar to private business enterprises, where funding to recover costs of providing goods and services to the general public is derived through user charges. The business-type funds statements – the *Statement of Net Position* and the *Statement of Revenues, Expenses and Changes in Net Position* are reported using an accrual basis of accounting and the economic resources measurement focus.

Fund Financial Statements: The HPHA uses fund accounting to report on its financial position and results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions.

The financial activities of the HPHA are recorded in individual funds. Funds have been classified into either a major or non-major fund. The criteria for determining “major” or “non-major” funds are provided by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - Management’s Discussion and Analysis for State and Local Governments*. Major funds are reported separately, while non-major funds are combined in a column in the fund financial statements. Details for the non-major funds can be found in the *Supplementary Information* section.

Notes to the Financial Statements: Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table was derived from the government-wide statement of net position.

HAWAII PUBLIC HOUSING AUTHORITY
Condensed Statements of Net Position
June 30, 2019 and June 30, 2018
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets						
Current & other assets	\$ 93,296	\$ 102,626	\$ 97,514	\$ 92,040	\$ 190,810	\$ 194,666
Capital assets	3,920	4,053	367,160	351,317	371,080	355,370
Other assets	-	-	8,717	8,717	8,717	8,717
Total Assets	97,216	106,679	473,391	452,074	570,607	558,753
Deferred Outflows of Resources	759	763	10,786	10,959	11,545	11,722
Total Assets & Deferred Outflows of Resources	\$ 97,975	\$ 107,442	\$ 484,177	\$ 463,033	\$ 582,152	\$ 570,475
Liabilities						
Current & other liabilities	\$ 7,632	\$ 6,300	\$ 5,750	\$ 5,270	\$ 13,382	\$ 11,570
Long-term liabilities	5,581	5,591	74,249	73,115	79,830	78,706
Total Liabilities	13,213	11,891	79,999	78,385	93,212	90,276
Deferred Inflows of Resources	66	(1)	1,720	924	1,786	923
Net Position						
Investment in capital assets, net of related debt	3,920	4,053	367,160	351,317	371,080	355,370
Restricted	3,231	3,729	-	-	3,231	3,729
Unrestricted	77,545	87,770	35,298	32,407	112,843	120,177
Total Net Position	84,696	95,552	402,458	383,724	487,154	479,276
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 97,975	\$ 107,442	\$ 484,177	\$ 463,033	\$ 582,152	\$ 570,475

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2019

Statement of Net Position

Net position may serve over time as a useful indicator of the HPHA's financial position. At the close of the fiscal year, the HPHA's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$487.16 million, \$371.08 million of net assets was invested in capital assets, net of related debt. As discussed in the financial highlights, net position increased by \$7.88 million during the fiscal period (as detailed on *Government-Wide Statement of Net Position and Statement of Activities*, pages 20 to 22).

Of the HPHA's total assets and deferred outflows of resources, \$371.08 million (or 63.7%) represents capital assets. Cash and Due from the State of Hawaii (as presented in the detailed *Government-Wide Statement of Net Position*, page 20) in the amount of \$188.01 million comprises 32.3% of total assets and deferred outflows of resources, of which \$86.67 million is Due from the State of Hawaii, representing available State allotted appropriations designated for capital improvement projects. Net position for the previous fiscal year had a similar composition with the majority of total assets and deferred outflows of resources represented by capital assets.

Accounts payable and accrued current expenses of \$12.00 million comprise 89.7% of the HPHA's total current liabilities (as detailed in the *Government-Wide Statement of Net Position*, page 21). Long term liabilities increased by \$1.13 million from the previous year. Total long-term liabilities and deferred inflows of resources mounts to \$81.62 million, or 85.9% of total liabilities and deferred inflows of resources, as compared to \$79.63 million and 87.3% in prior year.

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2019

The following financial information was derived from the government-wide statement of activities.

HAWAII PUBLIC HOUSING AUTHORITY
Government-Wide Statements of Activities
Years Ended June 30, 2019 and June 30, 2018
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
Program Revenues:						
Charges for services	\$ -	\$ -	\$ 24,814	\$ 23,781	\$ 24,814	\$ 23,781
Operating grants & contributions	71,220	66,961	24,833	23,821	96,053	90,782
Capital grants & contributions	-	-	6,799	11,902	6,799	11,902
Other income	664	765	559	329	1,223	1,094
General Revenues:						
State allotted appropriations, net of lapsed funds	31,611	24,243	-	-	31,611	24,243
Total Revenues	103,495	91,969	57,005	59,833	160,500	151,802
Expenses						
Governmental Activities						
Rental housing assistance program	74,381	71,193	-	-	74,381	71,193
Business-Type Activities						
Rental assistance program	-	-	61,135	61,293	61,135	61,293
Housing development program	-	-	10,342	9,781	10,342	9,781
Other expenses	-	-	6,389	3,511	6,389	3,511
Total government-wide expenses	74,381	71,193	77,866	74,585	152,247	145,778
Excess (deficiency) of revenues over (under) expenses	29,114	20,776	(20,861)	(14,752)	8,253	6,024
Capital contributions	(30,477)	(23,140)	30,102	23,140	(375)	-
Transfers	(9,493)	(7,972)	9,493	7,972	-	-
CHANGES IN NET POSITION	(10,856)	(10,336)	18,734	16,360	7,878	6,024
Net position, beginning of year	95,552	105,888	383,724	367,364	479,276	473,252
Net position, end of year	\$ 84,696	\$ 95,552	\$ 402,458	\$ 383,724	\$ 487,154	\$ 479,276

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2019

Statement of Activities

Government-wide operating grants and contributions increased by \$5.27 million in the current year from \$90.78 million to \$96.05 million. HUD capital grants decreased by \$5.10 million in the current year from \$11.90 million to \$6.80 million. HUD operating subsidies for federal public housing program increased by \$1.01 million or 4.2%, from \$23.82 million in the prior year to \$24.83 million. Business-type activities operating loss increased by \$6.11 million for the year to \$20.86 million, from prior year's \$14.75 million (as detailed in the *Government – Wide Statement of Activities*, Page 22).

Governmental activities net position decreased by \$10.86 million from previous year's \$95.55 million to current year's \$84.70 million. This decrease is primarily due to State allotted appropriations of \$31.61 million (net of lapsed capital funds of \$0.76 million), and net transfers out of \$9.49 million (as detailed in *Government-Wide Statement of Activities*, Page 22).

FINANCIAL ANALYSIS OF THE HPHA'S FUNDS

Governmental Funds

The focus of the HPHA's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the HPHA's ability to meet its financing requirements. In particular, unreserved fund balances may serve as a useful measure of the HPHA's net resources available for spending at the end of the fiscal year (as detailed in *Governmental Funds, Statement of Revenues, Expenditures and Changes in Fund Balance*, page 25).

- At the end of the fiscal year, combined fund balances amounted to \$85.66 million, a decrease of \$10.66 million, in comparison with the previous year's combined fund balance of \$96.33 million. Of the \$85.66 million fund balance, \$78.09 million was reserved for capital projects, (as detailed in *Governmental Funds, Balance Sheet*, page 23 and *Statement of Revenues, Expenditures and Changes in Fund Balances*, page 25).
- Under the General Fund, excess of revenues over expenditures at the end of the fiscal year was \$4.72 million. During the year, the General Fund expended \$1.35 million on capital projects, and \$5.86 million was transferred out of the General Fund to support the HPHA's business type activities (as detailed in *Governmental Funds, Statement of Revenues, Expenditures and Changes in Fund Balances*, page 25).
- The Capital Project Fund balance decreased by \$9.32 million, to \$78.09 million from previous year's \$87.41 million (as detailed on *Governmental Funds, Statement of Revenues, Expenditures, and Changes in Fund Balances*, page 25). The HPHA received allotted appropriations of \$23.44 million net of lapsed fund of \$0.56 million. Capital outlay was \$29.12 million, and net transfer out was \$3.64 million.

Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2019

- The Housing Choice Voucher Program fund balance decreased by \$0.50 million, to \$3.23 million. This is mainly because of \$0.50 million of excess expenditures over revenues.
- The Section 8 Contract Administration fund balance increased by \$0.29 million to \$2.90 million. Revenues exceeded expenditures by \$0.29 million.

Proprietary funds

The HPHA's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

- With the implementation of HUD's Asset Management and Project Based Budgeting, the HPHA established the HUD-mandated Central Office Cost Center (COCC) fund to account for costs related to the general oversight of the programs and projects the HPHA administers, and other indirect and administrative costs of the HPHA. The COCC fund charges fees to the HPHA's various housing programs for administrative services and general oversight.
- Combined Proprietary Funds losses before transfers amounted to \$20.89 million. (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position*, page 31) compared with previous year's loss of \$14.75 million. The \$6.14 million more loss is due to a combination of variances in revenues and expenses, including \$5.10 million less HUD capital fund grants, \$0.06 million more administrative expenses and \$1.37 more personnel expenses, offset by \$0.47 million more rental income and \$0.12 less repair and maintenance expenses.
- The COCC's loss before transfers increased to \$5.16 million (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position*, page 31), in comparison to previous year's loss of \$2.98 million. The increase in loss is mainly because of \$2.14 million less in fee-for-service revenue. Net position decreased by \$1.38 million, to \$0.82 million from prior years' \$2.20 million.
- Under the Federal Low Rent Program, loss before transfers increased by \$3.11 million to \$9.56 million, compared to previous year's net loss of \$6.45 million. The increase in losses is due to a combination of variances in revenues and expenses, including \$5.10 million less HUD capital grants and \$0.63 more personnel expenses, offset by \$1.01 million more federal operating subsidies, \$0.83 more rental income and \$1.70 million less administrative expenses. (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position*, pages 30 and 31).
- The State family housing program's loss before transfers amounted to \$2.35 million from previous year's \$2.34 million. This was mainly because rental income received was not sufficient to support operational expenditures. The program's net position decreased by \$1.39 million to \$23.16 million, mainly due to \$1.79 million less capital contributions, offset by \$0.21 million more operating transfers in. (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position*, page 31).

Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2019

- Similarly, the State Elderly Housing fund’s rental income received was insufficient to support the fund’s operational expenditures, resulting in a loss before transfers amounting to \$2.72 million in comparison to previous year’s \$2.66 million. The program’s net position increased by \$0.36 million to \$36.33 million due to \$1.18 million more capital contributions and \$0.49 million more operating transfers-in (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position*, page 31).
- Other Enterprise Funds loss before transfers amounted to \$1.09 million (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Positions*, page 31) compared with prior year loss of \$0.33 million.
- Ke Kumu at Waikoloa Project and the Kuhio Park Terrace Resource Center continued to operate at a deficit (as detailed on *Combining Statement of Revenues and Expenses – Nonmajor Other Enterprise Funds*, page 92).

CAPITAL ASSETS AND DEBT ADMINISTRATION

The HPHA’s investment in capital assets for the fiscal year ended June 30, 2019 is \$371.08 million, net of related debt. This investment in capital assets includes land, buildings and improvements, equipment, furniture, and fixtures, and construction in progress. (Detailed in *Notes to the Financial Statements, #5*, pages 51 and 52.)

HPHA Capital Assets
Years Ended June 30, 2019 and June 30, 2018
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 2,373	\$ 2,373	\$ 22,966	\$ 22,966	\$ 25,339	\$ 25,339
Buildings and improvements	15,325	15,325	674,117	649,813	689,442	665,138
Equipment	1,332	1,332	10,396	10,304	11,728	11,636
Construction in progress	-	-	89,379	77,647	89,379	77,647
Total	19,030	19,030	796,858	760,730	815,888	779,760
Accumulated depreciation	(15,110)	(14,978)	(429,698)	(409,412)	(444,808)	(424,390)
Total Capital Assets, net	\$ 3,920	\$ 4,052	\$ 367,160	\$ 351,318	\$ 371,080	\$ 355,370

Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2019

Major capital asset events during the current fiscal year included the following:

Major project outstanding balances in construction in progress at the end of FY2019

- AMP 30 Salt Lake Apartment, Modernization, Phase I & II, \$0.62 million
- AMP 31 Kalihi Valley Homes, Site, Dwelling and Accessibility Improvements, \$3.0 million
- AMP 31 Hauiki Homes, Upgrade Electrical System, \$0.92 million
- AMP 31 Puahala Homes I, Abatement and Modernization, \$0.22 million
- AMP 31 Puahala Homes I, Site and Building Improvements, \$0.67 million
- AMP 32 Mayor Wright Homes, Modernize Electric Meters, Panels, and Communication Boxes, \$0.35 million
- AMP 33 Kaahumanu Homes, Modernization, \$0.30 million
- AMP 34 Makua Alii, Upgrade Fire Alarm System and Call for Aid System, \$0.21 million
- AMP 34 Paoakalani (E), Upgrade Fire Alarm System and Call for Aid System, \$0.21 million
- AMP 34 Kalakaua Homes, Upgrade Fire Alarm System and Call for Aid System, \$0.21 million
- AMP 35 Punchbowl Homes (E), Trash Chutes, \$0.21 million
- AMP 35 Makamae (E), Trash Chutes, \$0.21 million
- AMP 35 Pumehana (E), Trash Chutes, \$0.21 million
- AMP 35 Pumehana (E), Upgrade Fire Alarm System and Call for Aid System, \$0.84 million
- AMP 35 Punchbowl Homes, Exterior Repairs, Re-roofing, Site & ADA improvements, \$8.14 million
- AMP 37 Lanakila Homes I, Major Utility Systems Upgrade, \$0.29 million
- AMP 37 Lanakila Homes I, Demolition Wooden Duplex Structures, \$2.25 million
- AMP 37 Lanakila Homes I, Construction of 4 Single-Story, Wood-Framed Townhouse, \$0.64 million
- AMP 37 Pahala (E), Design Service for Valve Boxes and Building Improvements, \$0.99 million
- AMP 37 Pahala (E), Site & Building Improvements, \$1.04 million
- AMP 37 Lanakila Homes IV, Demolition Wooden Duplex Structures, \$2.25 million
- AMP 38 Kapaa, Modernization, \$0.58 million
- AMP 38 Eleele Homes, Building, Site and Accessibility Improvement, \$0.46 million
- AMP 38 Renovation & Repairs to Units, \$0.34 million
- AMP 38 Kekaha Ha'aheo, Infrastructure and Site Improvement, \$0.66 million
- AMP 38 Home Nani (E), Infrastructure and Site Improvements, \$0.66 million
- AMP 38 Hale Hoolulu (E), Infrastructure & Site Improvement, \$0.33 million
- AMP 38 Hale Nana Kai O Kea (E), Infrastructure & Site Improvement, \$0.33 million
- AMP 38 Hui O Hanamaulu, Infrastructure & Site Improvement, \$0.33 million
- AMP 38 Hale Hoolulu (E), Infrastructure & Site Improvement, \$0.33 million
- AMP 39 Makani Kai Hale, Site & Dwelling Improvement, \$0.32 million
- AMP 42 Hale Poai & Halia Hale, Upgrade 5 Elevators, \$1.19 million
- AMP 42 Hale Po'ai, Site & Building Improvements, \$0.32 million
- AMP 44 Kau'iokalani, Site and Building Improvement, \$3.80 million
- AMP 44 Nanakuli, Drainage, \$0.33 million

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2019

- AMP 45 Hookipa Kahaluu, Accessibility & Site Improvement, \$0.42 million
- AMP 49 Wahiawa Terrace, Additional Construction due to Unforeseen Situation, \$2.05 million
- AMP 50 Palolo Valley Homes, Modernization, Phase 1 & 2, \$0.34 million
- AMP 50 Palolo Valley Homes, Modernization & Site Improvement, \$0.88 million
- AMP 50 Palolo Valley Homes, Modernization Phase 4, \$0.80 million

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

During the 2009 legislative session, S.B. bill No. 910 was enacted and required the transfer of the functions and duties of the homeless programs branch of the HPHA to the Department of Human Services, effective July 1, 2010. The impact of the transfer to the HPHA's net assets was approximately \$22,000,000 and was included in intergovernmental transfers under governmental activities in the government-wide statement of activities. The HPHA, however, continues to hold title to the State-owned shelter facilities.

PENDING CASES

Sophia Karsom, et al. v. State of Hawaii, et al. (Civil No. 17-1-0843, First Circuit Court)

Plaintiffs allege that an employee of the HPHA, driving an HPHA maintenance vehicle, struck a four (4) year-old boy who was playing on the sidewalk in front of his home at 1555 Haka Drive, on or about August 26, 2016. The complaint alleges that the boy suffered a fractured pelvis, broken bones and internal injuries.

Following service in October 2017, the State, the HPHA, and the employee answered the Amended Complaint. The State filed a third-party complaint against the minor's grandmother, Cynthia Kaminanga. In January 2019, the court granted the employee's Motion for Summary Judgment. Discovery is ongoing. In October 2019, the depositions of Plaintiffs and Third-Party Complainant Kaminanga were conducted. Depositions of Plaintiff mother and Plaintiff father are ongoing. Trial is scheduled for March 2, 2020.

Steven Rodrigues, as Personal Representative of the Estate of Iris Rodrigues-Kaikana, and in his individual capacity vs. Corbit K. Ahn, Kamehameha IV Housing Project, Hawaii Public Housing Authority, City & County of Honolulu, State of Hawaii, Mixed Martial Arts Academy, LLC, A Domestic Limited Liability Corporation

In August 2009, Iris Rodrigues-Kaikana was murdered by Corbit Ahn at the Kamehameha Homes in Kalihi. Her body was discovered in an alley adjacent to the housing complex. The Complaint alleges, among other things, that the State: failed to secure, to properly monitor and light the premises; "encouraged hoodlums like Defendant Ahn to enter the premises"; removed gates to keep "gangsters" out; "allowed sexual predators onto the premises"; and refused to enforce a curfew for hoodlums.

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2019

A jury in the criminal case against Ahn found him guilty of Murder in the Second Degree and Sexual Assault in the Third Degree. He was sentenced on July 9, 2012 to a mandatory life term in prison. The conviction was upheld on appeal.

The civil case was stayed from October 2012 to June 2015, pending completion of the appeal of Ahn's criminal conviction. The parties then completed a CAAP arbitration hearing where the arbitrator found the State not liable and Defendant Ahn 100% liable. Plaintiffs appealed.

In September 2018, the court granted the State, HPHA, and Kamehameha Homes' Motion for Summary Judgment as to all claims. Plaintiff has not filed a final judgment in this case as Plaintiff intends to re-file a Motion for Default Judgment against Defendant Corbit Ahn. As such, it remains unknown at this time if Plaintiffs intend to appeal the order granting the motion for summary judgment.

McJerold William, et al. v. Hawaii Public Housing Authority, et al.

This case involves five separate incidents of alleged mistreatment by the security guards at Kalihi Valley Homes. Plaintiffs allege there were two assaults by Kiamalu Security Services ("Kiamalu") security guard(s) and three assaults by Universal Protection Services ("UPS") security guards.

There had been an asset purchase of security companies. Kiamalu was the security guard company for the first two incidents including the William one. Then Universal Protection Service ("UPS") bought Kiamalu, including its contract with the HPHA.

Kiamalu's insurer has appointed counsel. UPS retained private counsel because of the large self insured retention on the insurance it selected. UPS did not accept the HPHA's tender of defense. Instead, counsel for UPS, the Plaintiffs, and Kiamalu agreed to an early mediation. Although the HPHA had not been served with the Complaint, the deputy attorney general attended the mediation, with the understanding that HPHA would not pay for the cost of the mediation, would not be making any offer (as it understood that UPS is obligated under its contract with the HPHA, and the facts), and there would not be any discovery requests aimed at the HPHA before the mediation. Following the mediation, four (4) Plaintiffs dismissed their claims against the HPHA pursuant to these Plaintiffs' respective settlement agreements with UPS and Kiamalu in early 2018. In July 2019, the remaining Plaintiff dismissed his claims against UPS but the filed stipulation to dismiss did not include or reference HPHA. To clarify the court record, HPHA intends to file a stipulation that dismisses all claims against HPHA and the State by the remaining Plaintiff.

Ke Kumu Ekahi

On July 9, 2014, the property known as Ke Kumu Ekahi in the City of Waikoloa, County of Hawaii, consisting of 48-unit low income rental housing project terminated its ground lease and the property reverted to HPHA. In consideration HPHA released Ke Kumu Limited Partnership from a mortgage loan of \$426,100 and the mortgagee and mortgagor forever discharge each other from any liabilities that may exist.

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2019

Mayor Wright Homes Redevelopment

During 2019, HPHA continued working with Hunt Development Group and the Vitus Group, the selected developer for redevelopment of Mayor Wright Homes, located within the Transit-Oriented Development (TOD) zone of the Honolulu Rail System, in close proximity to the Iwilei Station. The vision for the redevelopment includes: one-for-one replacement of public housing units, mixed-income and mixed-uses. The Hunt Development Group has fallen behind schedule with the delayed implementation of the NEPA review. Now that the NEPA review is completed, the HPHA is pending execution of a memorandum of agreement with the Governor of the State of Hawaii, the State Historic Preservation Officer, the Hawaii Public Housing Authority and MWH Partners, LLC to move the project forward into design. The HPHA anticipates the execution of a Phase I Development Agreement in the coming fiscal period.

N. School Street Redevelopment

During 2019, HPHA continued working with Retirement Housing Foundation and its partners to redevelop its administrative offices located at 1002 N. School Street. The project will include new HPHA offices, affordable housing units and commercial uses that best serve the surrounding community. The Retirement Housing Foundation is currently conducting community outreach meetings, stakeholder discussions, and environmental reviews. The HPHA Board of Directors approved the execution of a Master Development Agreement with Retirement Housing Foundation on October 31, 2019. After the execution of the MDA, the HPHA will be obligated for 50% of the shared predevelopment costs for activities such as planning and environmental review, subject to the availability of funding.

Kuhio Park Terrace Low Rises and Kuhio Homes

During 2019, HPHA continued working with Michaels Development Company to redevelop additional phases at Kuhio Park Terrace Low Rises and Kuhio Homes. The project anticipates demolition of the remaining structures at the property and new construction of senior and family housing units. The HPHA anticipates executing a revised Master Development Agreement with Michaels Development Company and a Phase II Development Agreement in the coming fiscal period.

CONTACT INFORMATION

This financial report is designed to provide a general overview of the HPHA's finances for all those with an interest in the HPHA's finances. If you have any questions about this report or need additional financial information, contact the Office of the Executive Director, Hawaii Public Housing Authority 1002 North School Street, Honolulu, HI 96817.

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF NET POSITION

June 30, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Governmental Activities	Business-Type Activities	Total
Current Assets:			
Cash	\$ 5,364,222	\$ 90,937,291	\$ 96,301,513
Restricted cash	289,895	4,749,813	5,039,708
Due from State of Hawaii	86,669,258	-	86,669,258
Receivables:			
Accrued interest	-	311,622	311,622
Tenant receivables, less allowance for doubtful receivables of \$1,653,689	-	461,259	461,259
Other	253,950	22,904	276,854
	<u>253,950</u>	<u>795,785</u>	<u>1,049,735</u>
Internal balances	(64,970)	64,970	-
Due from HUD	783,279	257,411	1,040,690
Inventories	-	692,100	692,100
Prepaid expenses and other assets	-	17,430	17,430
Total current assets	<u>93,295,634</u>	<u>97,514,800</u>	<u>190,810,434</u>
Notes Receivable	-	8,716,630	8,716,630
Capital Assets, less accumulated depreciation	<u>3,919,982</u>	<u>367,160,380</u>	<u>371,080,362</u>
Total assets	97,215,616	473,391,810	570,607,426
Deferred Outflows of Resources	<u>759,442</u>	<u>10,785,952</u>	<u>11,545,394</u>
Total assets and deferred outflows of resources	<u>\$ 97,975,058</u>	<u>\$ 484,177,762</u>	<u>\$ 582,152,820</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF NET POSITION (continued)

June 30, 2019

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	Governmental Activities	Business-Type Activities	Total
Current Liabilities:			
Accounts payable	\$ 6,796,352	\$ 1,402,396	\$ 8,198,748
Accrued expenses	835,406	2,967,431	3,802,837
Security deposits	-	1,175,092	1,175,092
Deferred income	-	205,245	205,245
Total current liabilities	7,631,758	5,750,164	13,381,922
Accrued Expenses	216,809	1,444,350	1,661,159
Net Other Post Employment Benefits (OPEB) Liability	2,742,132	37,546,412	40,288,544
Net Pension Liability	2,622,301	35,257,898	37,880,199
Total liabilities	13,213,000	79,998,824	93,211,824
Deferred Inflows of Resources	65,753	1,720,157	1,785,910
Commitments and Contingencies			
Net Position:			
Invested in capital assets, net of related debt	3,919,982	367,160,380	371,080,362
Restricted by legislation and contractual agreements	3,231,182	-	3,231,182
Unrestricted	77,545,141	35,298,401	112,843,542
Total net position	84,696,305	402,458,781	487,155,086
Total liabilities, deferred inflows of resources, and net position	\$ 97,975,058	\$ 484,177,762	\$ 582,152,820

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

	Expenses	Program Revenues			Net (expense) revenue and changes in net position		
		Charges for services and other revenues	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Functions/Programs:							
Governmental activity --							
Rental Housing and Assistance Program	\$ 74,381,228	\$ -	\$ 71,220,505	\$ -	\$ (3,160,723)	\$ -	\$ (3,160,723)
Total governmental activities	<u>74,381,228</u>	<u>-</u>	<u>71,220,505</u>	<u>-</u>	<u>(3,160,723)</u>	<u>-</u>	<u>(3,160,723)</u>
Business-type activities:							
Rental assistance program	61,134,922	19,934,291	24,832,784	6,798,509	-	(9,569,338)	(9,569,338)
Rental housing program	10,342,181	4,035,310	-	-	-	(6,306,871)	(6,306,871)
Others	6,388,906	844,528	-	-	-	(5,544,378)	(5,544,378)
Total business-type activities	<u>77,866,009</u>	<u>24,814,129</u>	<u>24,832,784</u>	<u>6,798,509</u>	<u>-</u>	<u>(21,420,587)</u>	<u>(21,420,587)</u>
Total government-wide	<u>\$ 152,247,237</u>	<u>\$ 24,814,129</u>	<u>\$ 96,053,289</u>	<u>\$ 6,798,509</u>	<u>(3,160,723)</u>	<u>(21,420,587)</u>	<u>(24,581,310)</u>
State Allotted Appropriations, net of lapsed funds of \$761,187					31,610,725	-	31,610,725
Other Non-Program Revenue					664,661	559,663	1,224,324
Net Transfers					(39,970,122)	39,595,122	(375,000)
Total general revenues and transfers					<u>(7,694,736)</u>	<u>40,154,785</u>	<u>32,460,049</u>
Change in net position					(10,855,459)	18,734,198	7,878,739
Net Position at July 1, 2018					<u>95,551,764</u>	<u>383,724,583</u>	<u>479,276,347</u>
Net Position at June 30, 2019					<u>\$ 84,696,305</u>	<u>\$ 402,458,781</u>	<u>\$ 487,155,086</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENTAL FUNDS
BALANCE SHEET

June 30, 2019

ASSETS	General	Capital Projects	Housing Choice Voucher	Section 8 Contract Administration	Total Governmental Funds
Current Assets:					
Cash	\$ -	\$ -	\$ 2,556,607	\$ 2,807,615	\$ 5,364,222
Restricted cash	-	-	289,895	-	289,895
Due from State of Hawaii	2,461,726	84,207,532	-	-	86,669,258
Other receivables	-	-	253,950	-	253,950
Due from HUD	-	-	401,800	381,479	783,279
Total current assets	\$ 2,461,726	\$ 84,207,532	\$ 3,502,252	\$ 3,189,094	\$ 93,360,604
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Accounts payable	\$ 258,920	\$ 6,113,572	\$ 132,736	\$ 291,124	\$ 6,796,352
Accrued expenses	704,605	-	130,801	-	835,406
Due to other funds	57,437	-	7,533	-	64,970
Total current liabilities	1,020,962	6,113,572	271,070	291,124	7,696,728
Fund Balances:					
Restricted by legislation and contractual agreements	-	-	3,231,182	-	3,231,182
Committed	-	42,571,829	-	-	42,571,829
Assigned	1,440,764	35,522,131	-	2,897,970	39,860,865
Total fund balances	1,440,764	78,093,960	3,231,182	2,897,970	85,663,876
Total liabilities and fund balances	\$ 2,461,726	\$ 84,207,532	\$ 3,502,252	\$ 3,189,094	\$ 93,360,604

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION

June 30, 2019

Total fund balance - governmental funds		\$	85,663,876
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds	3,919,982		
Other long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(95,421)		
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds	(121,388)		
Other post employment benefits are not due and payable in the current period and therefore are not reported in the funds	(2,742,132)		
Pension benefits are not due and payable in the current period and therefore are not reported in the funds	(2,622,301)		
Deferred outflows of resources related to the pension and other post employment benefits liabilities are not financial resources and therefore not reported in the funds	759,442		
Deferred inflows of resources related to the pension and other post employment benefits liabilities are not due and payable in the current period and therefore are not reported in the funds	(65,753)		(967,571)
Net position of governmental activities		\$	<u>84,696,305</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended June 30, 2019

	General	Capital Projects	Housing Choice Voucher	Section 8 Contract Administration	Total Governmental Funds
Revenues:					
Intergovernmental – HUD annual contributions and others	\$ -	\$ -	\$ 35,247,155	\$ 35,973,350	\$ 71,220,505
State allotted appropriations, net of lapsed funds of \$761,187	8,168,762	23,441,963	-	-	31,610,725
Other	118	-	664,261	282	664,661
Total revenues	8,168,880	23,441,963	35,911,416	35,973,632	103,495,891
Expenditures:					
Housing assistance payments	1,947,653	-	33,396,488	34,527,286	69,871,427
Administration	32,669	-	1,066,685	1,103,081	2,202,435
Personnel services	75,456	-	1,760,272	-	1,835,728
Professional services	36,285	-	48,577	48,068	132,930
Tenant services	35	-	76,172	-	76,207
Utilities	1,971	-	21,768	-	23,739
Repairs and maintenance	1,243	-	27,507	-	28,750
Security	157	-	1,645	-	1,802
Insurance	809	-	9,808	4,576	15,193
Capital outlays	1,352,416	29,124,981	-	-	30,477,397
Total expenditures	3,448,694	29,124,981	36,408,922	35,683,011	104,665,608
Excess (deficiency) of revenues over (under) expenditures	4,720,186	(5,683,018)	(497,506)	290,621	(1,169,717)
Other Financing Uses - Transfers Out	(5,856,336)	(3,636,389)	-	-	(9,492,725)
Net change in fund balances	(1,136,150)	(9,319,407)	(497,506)	290,621	(10,662,442)
Fund Balances at July 1, 2018	2,576,914	87,413,367	3,728,688	2,607,349	96,326,318
Fund Balances at June 30, 2019	\$ 1,440,764	\$ 78,093,960	\$ 3,231,182	\$ 2,897,970	\$ 85,663,876

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

RECONCILIATION OF THE CHANGE IN FUND
BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

Net change in fund balances - total governmental funds		\$ (10,662,442)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those governmental activities assets is allocated over their estimated useful lives and reported as depreciation expense. Depreciation expense of those governmental activity assets amounted to approximately \$133,000.</p>		
Expenditures for capital assets	30,102,397	
Less current year depreciation expense	<u>(132,864)</u>	29,969,533
Transfer of capital assets between governmental activities and business-type activities		(30,102,397)
Long-term compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds		(15,299)
Family Self-Sufficiency program expense reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds		111,339
Funds report expenditures for other post employment benefit (OPEB) contributions. The government-wide statements report changes in deferred outflows, deferred inflows and net OPEB liability as OPEB expense.		7,032
Funds report expenditures for pension contributions. The government-wide statements report changes in deferred outflows, deferred inflows and net position liability as pension expense		<u>(163,225)</u>
Change in net position of governmental activities		<u>\$ (10,855,459)</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

June 30, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Current Assets:							
Cash	\$ 53,036,740	\$ 1,345,990	\$ 4,654,463	\$ 17,944,563	\$ 12,594,152	\$ 89,575,908	\$ 1,361,383
Restricted cash	1,763,675	43,163	166,656	2,740,599	35,720	4,749,813	-
	<u>54,800,415</u>	<u>1,389,153</u>	<u>4,821,119</u>	<u>20,685,162</u>	<u>12,629,872</u>	<u>94,325,721</u>	<u>1,361,383</u>
Receivables:							
Accrued interest	-	27,572	94,609	162,827	-	285,008	26,614
Tenant receivables, less allowance for doubtful accounts of \$1,653,689	355,466	86,740	-	-	19,053	461,259	-
Other	-	11,590	-	1,868	9,446	22,904	-
	<u>355,466</u>	<u>125,902</u>	<u>94,609</u>	<u>164,695</u>	<u>28,499</u>	<u>769,171</u>	<u>26,614</u>
Due from other funds	88,157	178,250	130,667	13,199,772	148,814	13,745,660	-
Due from HUD	257,411	-	-	-	-	257,411	-
Inventories	551,047	65,976	61,190	13,887	-	692,100	-
Prepaid expenses and other assets	-	-	-	17,430	-	17,430	-
Total current assets	<u>56,052,496</u>	<u>1,759,281</u>	<u>5,107,585</u>	<u>34,080,946</u>	<u>12,807,185</u>	<u>109,807,493</u>	<u>1,387,997</u>
Notes Receivable	8,716,630	-	-	-	-	8,716,630	-
Due from Other Funds	-	-	-	18,034,640	-	18,034,640	-
Capital Assets, less accumulated depreciation	301,378,438	24,166,341	31,692,183	246,242	9,644,264	367,127,468	32,912
Total assets	<u>366,147,564</u>	<u>25,925,622</u>	<u>36,799,768</u>	<u>52,361,828</u>	<u>22,451,449</u>	<u>503,686,231</u>	<u>1,420,909</u>
Deferred Outflows of Resources	<u>4,735,041</u>	<u>375,205</u>	<u>-</u>	<u>5,675,706</u>	<u>-</u>	<u>10,785,952</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 370,882,605</u>	<u>\$ 26,300,827</u>	<u>\$ 36,799,768</u>	<u>\$ 58,037,534</u>	<u>\$ 22,451,449</u>	<u>\$ 514,472,183</u>	<u>\$ 1,420,909</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF NET POSITION (continued)

June 30, 2019

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Current Liabilities:							
Accounts payable	\$ 957,770	\$ 11,066	\$ 105,355	\$ 78,104	\$ 250,101	\$ 1,402,396	\$ -
Accrued expenses	1,624,351	138,739	149,065	918,253	137,023	2,967,431	-
Due to other funds	1,584,356	47,009	44,368	88,157	11,916,800	13,680,690	-
Security deposits	918,444	43,163	166,656	-	46,829	1,175,092	-
Deferred income	199,817	2,172	2,917	-	339	205,245	-
Total current liabilities	5,284,738	242,149	468,361	1,084,514	12,351,092	19,430,854	-
Accrued Expenses	655,705	49,554	-	739,091	-	1,444,350	-
Due to Other Funds	16,678,845	1,355,795	-	-	-	18,034,640	-
Net OPEB Liability	-	-	-	37,546,412	-	37,546,412	-
Net Pension Liability	16,867,044	1,433,448	-	16,957,406	-	35,257,898	-
Total liabilities	39,486,332	3,080,946	468,361	56,327,423	12,351,092	111,714,154	-
Deferred Inflows of Resources	770,740	56,169	-	893,248	-	1,720,157	-
Commitments and Contingencies							
Net Position:							
Invested in capital assets, net of related debt	301,378,438	24,166,341	31,692,183	246,242	9,644,264	367,127,468	32,912
Unrestricted	29,247,095	(1,002,629)	4,639,224	570,621	456,093	33,910,404	1,387,997
Total net position	330,625,533	23,163,712	36,331,407	816,863	10,100,357	401,037,872	1,420,909
Total liabilities, deferred inflows of resources, and net position	\$ 370,882,605	\$ 26,300,827	\$ 36,799,768	\$ 58,037,534	\$ 22,451,449	\$ 514,472,183	\$ 1,420,909

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

RECONCILIATION OF THE PROPRIETARY FUNDS NET POSITION
TO THE STATEMENT OF NET POSITION

June 30, 2019

Total net position of enterprise funds	\$ 401,037,872
Amounts reported for business-type activities in the statement of net position are different because internal service fund assets and liabilities are included with business-type activities	<u>1,420,909</u>
Net position of business-type activities	<u><u>\$ 402,458,781</u></u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2019

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Eliminating Entries	Total Enterprise Funds	Internal Service Funds
Operating Revenues:								
Rental	\$ 19,500,372	\$ 1,217,149	\$ 2,084,980	\$ -	\$ 608,991	\$ -	\$ 23,411,492	\$ -
Fee-for-service	-	-	-	7,747,526	-	(7,747,526)	-	-
Other	433,919	3,391	78,562	787,235	42,237	-	1,345,344	57,293
Total operating revenues	19,934,291	1,220,540	2,163,542	8,534,761	651,228	(7,747,526)	24,756,836	57,293
Operating Expenses:								
Personnel services	11,801,667	881,252	-	12,373,556	-	-	25,056,475	-
Depreciation	16,860,260	1,140,295	1,592,615	76,883	560,316	-	20,230,369	55,260
Administration	7,346,808	301,989	780,177	484,955	368,488	(6,036,815)	3,245,602	-
Provision for losses (recoveries)	214,061	(56,986)	228	-	-	-	157,303	-
Professional services	221,540	53,898	66,891	623,265	12,028	-	977,622	1,224
Tenant services	40,087	404	100	28,062	-	-	68,653	-
Security	3,131,050	-	529	11,135	170,381	-	3,313,095	-
Insurance	486,073	27,696	81,372	12,148	15,823	-	623,112	940
Repairs and maintenance	10,100,562	546,100	1,152,728	288,530	327,893	(1,710,711)	10,705,102	-
Utilities	10,726,179	704,795	1,318,817	180,474	294,352	-	13,224,617	-
Payments in lieu of taxes	206,635	-	-	-	-	-	206,635	-
Total operating expenses	61,134,922	3,599,443	4,993,457	14,079,008	1,749,281	(7,747,526)	77,808,585	57,424
Operating loss carried forward	(41,200,631)	(2,378,903)	(2,829,915)	(5,544,247)	(1,098,053)	-	(53,051,749)	(131)

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (continued)

Year Ended June 30, 2019

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Eliminating Entries	Total Enterprise Funds	Internal Service Funds
Operating loss brought forward	(41,200,631)	(2,378,903)	(2,829,915)	(5,544,247)	(1,098,053)	-	(53,051,749)	(131)
Nonoperating Revenues:								
HUD operating subsidies	24,832,784	-	-	-	-	-	24,832,784	-
HUD capital fund subsidies	6,798,509	-	-	-	-	-	6,798,509	-
Other revenues	6,085	30,363	107,041	386,897	-	-	530,386	29,277
Net nonoperating revenues	31,637,378	30,363	107,041	386,897	-	-	32,161,679	29,277
(Loss) income before transfers	(9,563,253)	(2,348,540)	(2,722,874)	(5,157,350)	(1,098,053)	-	(20,890,070)	29,146
Capital Contributions	28,740,175	9,654	1,352,568	-	-	-	30,102,397	-
Net Transfers	3,037,054	952,828	1,727,326	3,775,517	-	-	9,492,725	-
Change in net position	22,213,976	(1,386,058)	357,020	(1,381,833)	(1,098,053)	-	18,705,052	29,146
Net Position at July 1, 2018	308,411,557	24,549,770	35,974,387	2,198,696	11,198,410	-	382,332,820	1,391,763
Net Position at June 30, 2019	<u>\$ 330,625,533</u>	<u>\$ 23,163,712</u>	<u>\$ 36,331,407</u>	<u>\$ 816,863</u>	<u>\$ 10,100,357</u>	<u>\$ -</u>	<u>\$ 401,037,872</u>	<u>\$ 1,420,909</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

RECONCILIATION OF THE CHANGE IN NET POSITION
OF PROPRIETARY FUNDS
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

Change in net position - total enterprise funds	\$ 18,705,052
Change in net position - internal service funds	<u>29,146</u>
Change in net position of business-type activities	<u>\$ 18,734,198</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

Year Ended June 30, 2019

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities:							
Cash received from renters	\$ 19,302,624	\$ 1,200,582	\$ 2,080,995	\$ -	\$ 607,551	\$ 23,191,752	\$ -
Cash payments to employees	(11,801,667)	(881,662)	-	(12,016,446)	-	(24,699,775)	-
Cash payments to suppliers	(31,679,989)	(1,608,076)	(3,164,474)	(1,641,363)	(902,001)	(38,995,903)	-
Cash receipts from (payments to) other funds	4,244,461	982,953	1,857,001	10,674,847	(1,023,347)	16,735,915	118,037
Other cash receipts (payments)	1,144,578	276,382	78,562	1,600,446	(59,087)	3,040,881	(2,164)
Net cash (used in) provided by operating activities	(18,789,993)	(29,821)	852,084	(1,382,516)	(1,376,884)	(20,727,130)	115,873
Cash Flows from Noncapital Financing Activity --							
HUD operating subsidy received	24,832,784	-	-	108,892	-	24,941,676	-
Net cash provided by noncapital financing activities	24,832,784	-	-	108,892	-	24,941,676	-
Cash Flows from Capital and Related Financing Activities:							
HUD capital subsidy received	6,660,731	-	-	-	-	6,660,731	-
Payments for acquisition of property and equipment	(6,243,533)	-	-	-	-	(6,243,533)	-
Other	6,085	-	-	-	-	6,085	-
Net cash provided by capital and related financing activities	423,283	-	-	-	-	423,283	-
Subtotal carried forward	6,466,074	(29,821)	852,084	(1,273,624)	(1,376,884)	4,637,829	115,873

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (continued)

Year Ended June 30, 2019

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Subtotal brought forward	\$ 6,466,074	\$ (29,821)	\$ 852,084	\$ (1,273,624)	\$ (1,376,884)	\$ 4,637,829	\$ 115,873
Cash Flows from Investing Activity --							
Receipts of Interest	-	14,254	35,304	167,930	-	217,488	10,259
Net cash provided by investing activities	-	14,254	35,304	167,930	-	217,488	10,259
Net increase (decrease) in cash	6,466,074	(15,567)	887,388	(1,105,694)	(1,376,884)	4,855,317	126,132
Cash at July 1, 2018	48,334,341	1,404,720	3,933,731	21,790,856	14,006,756	89,470,404	1,235,251
Cash at June 30, 2019	<u>\$ 54,800,415</u>	<u>\$ 1,389,153</u>	<u>\$ 4,821,119</u>	<u>\$ 20,685,162</u>	<u>\$ 12,629,872</u>	<u>\$ 94,325,721</u>	<u>\$ 1,361,383</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (continued)

Year Ended June 30, 2019

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities:							
Reconciliation of operating loss to net cash							
(used in) provided by operating activities:							
Operating loss	\$ (41,200,631)	\$ (2,378,903)	\$ (2,829,915)	\$ (5,544,247)	\$ (1,098,053)	\$ (53,051,749)	\$ (131)
Adjustments to reconcile operating loss							
to net cash (used in) provided by operating activities:							
Depreciation	16,860,260	1,140,295	1,592,615	76,883	560,316	20,230,369	55,260
Provision for (recovery of) losses	214,061	(56,986)	228	-	-	157,303	-
Loss on capital asset write off	-	217,312	-	-	-	217,312	-
Changes in assets and liabilities:							
Tenant receivables	(271,714)	(10,635)	202	-	(907)	(283,054)	-
Other receivables	-	(1,783)	793	(84)	4,786	3,712	-
Due from other funds	3,717,594	1,168,177	1,994,411	2,899,908	(148,476)	9,631,614	60,744
Inventories	(96,885)	(31,570)	2,329	7,538	-	(118,588)	-
Prepaid expenses and other assets	-	-	-	(4,443)	33	(4,410)	-
Deferred outflows of resources related to pension and OPEB	114,097	11,851	-	46,809	-	172,757	-
Accounts payable	305,927	(9,914)	83,953	(93,533)	93,044	379,477	-
Accrued expenses	255,806	56,029	149,065	32,617	109,234	602,751	-
Due to other funds	526,867	(185,224)	(137,410)	27,413	(324,926)	(93,280)	-
Due to State of Hawaii	-	-	-	-	(571,402)	(571,402)	-
Security deposits	75,726	2,487	756	-	760	79,729	-
Deferred income	(1,760)	(8,419)	(4,943)	(9,523)	(1,293)	(25,938)	-
Net OPEB liability	-	-	-	355,328	-	355,328	-
Net pension liability	374,910	30,287	-	390,036	-	795,233	-
Deferred inflows of resources related to pension and OPEB	335,749	27,175	-	432,782	-	795,706	-
Net cash (used in) provided by operating activities	<u>\$ (18,789,993)</u>	<u>\$ (29,821)</u>	<u>\$ 852,084</u>	<u>\$ (1,382,516)</u>	<u>\$ (1,376,884)</u>	<u>\$ (20,727,130)</u>	<u>\$ 115,873</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

1. Organization and Significant Accounting Policies

a. General

Act 196, SLH 2005, as amended by Act 180, SLH 2006, created the Hawaii Public Housing Authority (the Authority).

The Authority's mission is to provide safe, decent and sanitary dwelling for low and moderate income residents of Hawaii and to operate its housing program in accordance with federal and state of Hawaii laws and regulations.

For financial reporting purposes, the Authority includes all funds that are controlled by or dependent on the Authority's Board of Directors. Control by or dependence on the Authority was determined on the basis of statutory authority and monies flowing through the Authority to each fund. The Authority is a component unit of the State of Hawaii.

The financial statements of the Authority are intended to present the financial position, changes in financial position, and cash flows where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2019, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which include the Authority's financial activities.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements, the statement of net position and the statement of activities, report information of all of the non-fiduciary activities of the Authority. Governmental activities, which normally are supported by State allotments and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Hawaii Public Housing Authority

Notes to Financial Statements

June 30, 2019

1. Organization and Significant Accounting Policies (continued)

b. Government-Wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Indirect expenses are allocated to a specific function in accordance with the U.S. Department of Housing and Urban Development requirements. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function.

Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotments and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues.

Net positions are restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first then unrestricted resources as they are needed.

The fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are summarized into a single column.

c. Measurement Focus and Basis of Accounting

i. Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

1. Organization and Significant Accounting Policies (continued)

c. Measurement Focus and Basis of Accounting (continued)

ii. Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. In applying the susceptible to accrual concept to intergovernmental revenues, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when applicable requirements, including timing requirements are met.

Principal revenue sources considered susceptible to accrual include federal grants and rental income. Some revenue items that are considered measurable and available to finance operations during the year from an accounting perspective are not available for expenditure due to the State's present appropriation system. These revenues have been accrued in accordance with generally accepted accounting principles since they have been earned and are expected to be collected within sixty days of the end of the period. Other revenues are considered to be measurable and available only when cash is received by the Authority.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include employees' long-term compensated absences, family self-sufficiency program costs, net other post employment benefits (OPEB) liability, net pension liability, and deferred inflows and outflows of resources, which are recorded as expenditures when utilized or paid. The amount of indebtedness related to long-term compensated absences, family self-sufficiency program costs, net other post employment benefits liability, net pension liability and deferred inflows and outflows of resources at June 30, 2019 has been reported in the government-wide financial statements.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

1. Organization and Significant Accounting Policies (continued)

c. Measurement Focus and Basis of Accounting (continued)

iii. Proprietary Funds

The financial statements of proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the Authority's enterprise funds is rental income. Federal grants are reported as nonoperating income.

d. Fund Accounting

The financial activities of the Authority are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Authority uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the Authority that are reported in the accompanying fund financial statements have been classified into the following major and non-major governmental and proprietary funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

i. Governmental Funds

General Fund – The general fund is the general operating fund of the Authority. It is used to account for all financial activities except those required to be accounted for in another fund. This fund includes the Rent Housing and Assistance Program. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. These funds include Housing Choice Voucher Program and Section 8 Contract Administration.

Capital Projects Fund – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund type).

The Authority reports the following major governmental funds:

- General Fund
- Capital Projects Fund
- Housing Choice Voucher Program – accounts for federal contributions for housing assistance payments under the Housing Choice Voucher Program and Family Self-Sufficiency Program.
- Section 8 Contract Administration – accounts for federal contributions primarily for housing payments under the Project-Based Section 8 Program.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

ii. Proprietary Funds

Enterprise Funds – These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to customers, or where sound financial management dictates that periodic determinations of results of operations are appropriate.

The enterprise funds include the Federal Low Rent Program, Housing Revolving Fund, Housing for Elders Revolving Fund, Central Office Cost Center Fund and other funds. The other funds include the Wilikina Apartments Project, Kekumu at Waikoloa Project, Disbursing Fund and Kuhio Park Terrace (KPT) Resource Center.

Internal Service Funds – These funds account for those activities which provide goods or services primarily to the Authority, rather than to external parties. In the government-wide statements, internal service funds are included with business-type activities. These funds include the Equipment Rental Fund and Vehicle Rental Fund.

The Authority reports the following as major proprietary funds:

Federal Low-Rent Program accounts for the proceeds from federal contributions for the development of rental property and rental income and federal operating subsidies from such properties.

Housing Revolving Fund accounts for various state multifamily housing projects located throughout the State of Hawaii.

Housing for Elders Revolving Fund accounts for various state elderly housing projects located throughout the State of Hawaii.

Central Office Cost Center Fund was established to account for costs related to the general oversight of its housing projects and other indirect and administrative costs of the Authority. The fund charges fees to the Authority's various housing projects for such services. In addition to the fee income to operate the public housing programs, the Authority also earns fees from its other federal and state programs. The fee income earned by the fund is considered to be de-federalized.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

1. Organization and Significant Accounting Policies (continued)

e. Department of Housing and Urban Development (HUD) Subsidized Programs

The Federal Low-Rent Program Fund operates under HUD's Annual Contribution Contract and consists of the operations of low-rent housing properties. The purpose of the program is to provide decent and affordable housing to low-income families at reduced rents. The properties are owned, maintained and managed by the Authority. The properties are acquired, developed and modernized under HUD's comprehensive grant programs. Funding for the properties is provided by federal operating subsidies and tenant rentals (determined as a percentage of family income, adjusted for family composition).

The Section 8 Programs consists of the Housing Choice Voucher Program Fund and the Section 8 Contract Administration Fund. The Housing Choice Voucher Program Fund provides rental housing assistance subsidies to qualified participants. The purpose of the program is to assist low-income families, the elderly and the disabled to afford decent, safe and sanitary housing in the private market. Federal housing assistance is provided on behalf of the family or individuals and is paid directly to the landlord directly by the Authority. The family or individual is responsible for finding a suitable housing unit in which the landlord agrees to rent under the program. The Section 8 Contract Administration Fund administers non-Authority owned housing units used for low-income housing. HUD provides a contracted dollar amount to the Authority, which is used to provide rental payment assistance to landlords.

f. Capital Assets

Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities in the government-wide financial statements and proprietary funds financial statements. Capital assets are defined by the Authority as land and those assets with estimated useful lives greater than one year and with an acquisition cost greater than:

Land improvements	\$ 100,000
Building and building improvements	\$ 100,000
Equipment	\$ 5,000

Purchased and constructed capital assets are valued at cost. Donated assets are recorded at their fair market value at the date of donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

1. Organization and Significant Accounting Policies (continued)

f. Capital Assets (continued)

Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds financial statements. The Authority utilizes the straight-line method over the assets' estimated useful life. No depreciation is recorded for land and land improvements. Generally, the useful lives are as follows:

	<u>Governmental Activities</u>	<u>Proprietary Fund and Business-Type Activities</u>
Building and building improvements	25 years	10 - 40 years
Equipement	7 years	1 - 10 years

g. Cash and Cash Equivalents

Cash and cash equivalents, if any, for the purpose of the statement of cash flows – proprietary funds, include all cash and investments with original purchased maturities of three months or less.

h. Inventories

Materials and supplies inventories are stated at the lower of cost or market, with cost being determined principally using the first-in, first-out method. The cost of inventories is recorded as an expenditure when consumed.

i. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and service type transactions are classified as “due to and from other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

1. Organization and Significant Accounting Policies (continued)

j. Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent consumptions of net position that apply to future periods and will not be recognized as an outflow of resources (expenditures) until then. The balances as of June 30, 2019 are as follows:

	Governmental Funds	Business-Type Funds	Total
Deferred pension related costs	\$ 455,409	\$ 7,053,872	\$ 7,509,281
Deferred OPEB related costs	304,033	3,732,080	4,036,113
	<u>\$ 759,442</u>	<u>\$ 10,785,952</u>	<u>\$ 11,545,394</u>

Deferred inflows of resources represent acquisitions of net position that apply to future periods and will not be recognized as an inflow of resources (revenues) until then. The balances as of June 30, 2019 are as follows:

	Governmental Funds	Business-Type Funds	Total
Deferred pension related costs	\$ (7,149)	\$ (998,778)	\$ (1,005,927)
Deferred OPEB related costs	(58,604)	(721,379)	(779,983)
	<u>\$ (65,753)</u>	<u>\$ (1,720,157)</u>	<u>\$ (1,785,910)</u>

k. HUD Annual Contributions

The Authority receives annual contributions and subsidies from HUD for operating the Authority's housing assistance payment programs and the development and operation of low-income housing projects. The Authority also receives annual subsidies from HUD for housing assistance payments and operating deficits incurred in the operation of the programs. Annual subsidies recorded in the proprietary fund types are recognized as nonoperating revenue when realized and earned and are accounted for in the statement of revenues, expenses and changes in fund net position – proprietary funds as HUD operating subsidy.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

1. Organization and Significant Accounting Policies (continued)

l. Vacation

Employees are credited with vacation at a rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year end and is convertible to pay upon termination of employment. Liabilities for accumulated unpaid vacation are accrued at the end of each accounting period utilizing current salary rates. Such vacation credits are recorded as accrued wages and employee benefits payable in the government-wide and the enterprise funds financial statements at the balance sheet date. Accumulated unpaid vacation estimated to be used or paid during the next year is approximately \$714,000.

The change in accumulated unpaid vacation during the year is approximately as follows:

Balance at July 1, 2018	Additions	Reductions	Balance at June 30, 2019
<u>\$ 2,281,000</u>	<u>\$ 1,171,000</u>	<u>\$ 1,172,000</u>	<u>\$ 2,280,000</u>

As of June 30, 2019, approximately \$177,000 and \$2,103,000 of the unpaid vacation balance was for government-wide activities and business-type activities, respectively, and is included in accrued expenses in the accompanying statement of net position.

m. Restrictions of Net Positions and Fund Balances

Net positions are restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, it is generally the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

The Authority classifies fund balances into specifically defined classifications for governmental fund types. Classifications include the following:

Restricted. Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

1. Organization and Significant Accounting Policies (continued)

m. Restrictions of Net Positions and Fund Balances (continued)

Committed. Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the state legislature. Committed fund balances also include contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned. Balances that are constrained by management to be used for specific purposes but are neither restricted nor committed. The general and capital projects fund balances are assigned for continuing appropriations, which are comprised of encumbrances and unencumbered allotment balances. Encumbrances represent outstanding commitments, which generally are liquidated in the subsequent fiscal year. Unencumbered allotment balances represent amounts that have been released and made available for encumbrance or expenditure and are legally segregated for a specific future use.

Unassigned. Residual balances that are not contained in the other classifications.

n. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System of the State of Hawaii (ERS) and additions to/deductions from ERS's fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

o. Other Post Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and additions to/deductions from the EUTF's fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at their fair value.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

1. Organization and Significant Accounting Policies (continued)

p. Risk Management

Liabilities related to certain types of losses (including torts, theft of, damage to, or destruction of assets, errors or omissions, natural disasters and injuries to employees) are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

q. Management's Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Significant estimates and assumptions include the valuation for accounts receivable, the liabilities of other post employee benefits and pension. Actual results could differ from those estimates.

2. Budgeting and Budgetary Control

The budget of the Authority is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services and activities to be provided during the fiscal year, (2) the estimated revenues available to finance the operating plan, and (3) the estimated spending requirements of the operating plan. The budget represents a process through which financial policy decisions are made, implemented and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected as budgeted revenues in the accompanying required supplementary information – budgetary comparison schedule are estimates as compiled by the Authority and reviewed by the Department of Budget and Finance. Budgeted expenditures are derived primarily from acts of the State Legislature and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes (HRS) and other specific appropriation acts in various Session Laws of Hawaii.

Expenditures of these appropriated funds are made pursuant to the appropriations in the biennial budget as amended by subsequent supplemental appropriations. Budgetary control is maintained at the departmental level. Budget revisions and interdepartmental transfers may be affected with certain executive and legislative branch approvals.

Hawaii Public Housing Authority

Notes to Financial Statements

June 30, 2019

2. Budgeting and Budgetary Control (continued)

The general fund and certain special revenue funds have legally appropriated annual budgets. The final legally adopted budget in the accompanying required supplementary information – budgetary comparison schedules represent the original appropriations, transfers and other legally authorized legislative and executive changes.

To the extent not expended or encumbered, general fund and special revenue funds appropriations generally lapse at the end of the fiscal year or grant period for which the appropriations were made. The State Legislature or federal government specifies the lapse dates and any other contingencies that may terminate the authorization for other appropriations. Known lapses occurring in the year of appropriation, if any, are included in the amended budgets, and are netted against revenues in the accompanying required supplementary information – budgetary comparison schedule.

A comparison of both the original budget and the final budget to the actual revenues and expenditures of the general and certain special revenue funds are presented in the accompanying required supplementary information – budgetary comparison schedule. Differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with GAAP are mainly due to revenues and expenditures of unbudgeted funds and the different methods used to recognize resource uses. For budgeting purposes, resource uses are recognized when cash disbursements are made or funds are encumbered.

For financial statements presented in accordance with GAAP, expenditures are recognized when incurred and encumbrances are not reported as resources used.

A summation of the differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with GAAP for the general and certain special revenue funds for the year ended June 30, 2019 is set forth in the required supplementary information.

3. Cash

The State maintains a cash pool that is available to all funds. The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance may invest any monies of the State, which in the Director's judgment are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited with approved financial institutions or invested in the State Treasury Investment Pool. Cash accounts that participate in the investment pool accrue interest based on the average weighted cash balances of each account.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

3. Cash (continued)

The State requires that the depository banks pledge, as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

At June 30, 2019, total cash, including restricted cash and deposits, reported in the statement of net position is \$101,341,221 which consisted of the following:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
State pool and petty cash	\$ -	\$ 19,070,003	\$ 19,070,003
Cash in bank (book balance)	<u>5,654,117</u>	<u>76,617,101</u>	<u>82,271,218</u>
	<u>\$ 5,654,117</u>	<u>\$ 95,687,104</u>	<u>\$ 101,341,221</u>

Bank balance of cash in bank was approximately \$84,018,000 of which \$750,000 was covered by federal depository insurance and \$83,268,000 by collateral held by the pledging financial institution's trust department or agent in the name of the Authority.

4. Notes Receivable for Sale of Kuhio Park Terrace Towers – Federal Low Rent Program

On May 1, 2011, the Authority entered into an Acquisitions Financing Agreement (Agreement) to sell, transfer and convey unto a third party the buildings, structures, equipment, machinery, apparatus, fixtures and fittings (Improvements) of the two high rise buildings known as Kuhio Park Terrace Towers (Project), and for the execution of a ground lease for the land underlying the Improvements (Property), as defined in the Agreement. The ground lease annual rent is one dollar (\$1) and expires on May 11, 2076, with an option for an additional ten (10) years. The buyer, as defined in the Agreement, is required to redevelop the Project to include 555 units, 347 of which will be operated as public housing. In order to assist the buyer in financing the rehabilitation of the Project, the State of Hawaii, Hawaii Housing and Finance Development Corporation issued revenue bonds in the amount of \$66,000,000 for which the proceeds were used to make a mortgage loan to the buyer.

Pursuant to the Agreement, the buyer agreed to pay the Authority an acquisition fee of \$4,665,000 in consideration for acquiring the leasehold interest in the Property and \$45,000,000 for the Improvements, such that the total purchase price was \$49,665,000. Of the total purchase price, \$3,162,943 was paid in cash and the remaining balance of \$46,502,057 was financed pursuant to the

Hawaii Public Housing Authority

Notes to Financial Statements

June 30, 2019

4. Notes Receivable for Sale of Kuhio Park Terrace Towers – Federal Low Rent Program (continued)

Agreement by a note. The note, which is secured by a leasehold mortgage and security agreement, matures in May 2051 and accrues interest at the greater of 4.19 percent per annum or the long term annually compounding applicable federal rate. The note is payable from cash flows from the Property in the amounts and priority set forth in the note, provided that the payments due shall not exceed seventy-five percent (75%) of the borrower's surplus cash, as defined in the note. Additionally, the note is subordinate to the rights of certain financing agreements related to the issuance of revenue bonds for the redevelopment of the Project. Any remaining unpaid principal and accrued interest balance is due and payable on the maturity date of the note.

The sale of the Project is being accounted for under the cost recovery method. Under this method, the gain on sale is deferred until the total payments made by the buyer exceed the cost of the Project. However, a portion of the deferred gain is recognized as income to the extent that the deferred gain exceeds the note receivable from the buyer plus the maximum contingent liability to the Authority for other debt on the Project.

During 2019, the interest earned on the note receivable amounted to approximately \$2,033,000 and has been recorded in deferred gain. As of June 30, 2019, the net note receivable, inclusive of all principal, accrued interest of approximately \$17,502,000 and deferred gain related to the Project, is as follows and reflected under the Federal Low Rent Program statement of net position:

Principal and accrued interest	\$ 64,004,159
Deferred gain	<u>(59,187,529)</u>
Net note receivable	<u><u>\$ 4,816,630</u></u>

Additionally, prior to the execution of the ground lease and sale of the Improvements, several planned capital improvements related to the Project had not been completed. As both the Authority and the buyer agreed that the work is necessary, the buyer agreed to complete the work and the Authority agreed to provide the financing. Accordingly, the Authority agreed to loan the buyer up to \$3,900,000 from Public Housing Capital Funds and State of Hawaii Capital Improvement Projects Funds. Payment of principal is deferred until the maturity date, whereupon all principal is due, subject to the availability of surplus cash, as defined in the note agreement. The note does not bear interest unless the borrower defaults upon the maturity date of May 2051. As of June 30, 2019, the Authority loaned the full \$3,900,000 to the buyer, which is included in the accompanying statement of net position under the Federal Low Rent Program.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

5. Capital Assets

Capital assets activity for the year ended June 30, 2019 was as follows:

	<u>July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2019</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 2,373,410	\$ -	\$ -	\$ 2,373,410
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated	<u>2,373,410</u>	<u>-</u>	<u>-</u>	<u>2,373,410</u>
Capital assets, being depreciated:				
Building and improvements	15,325,444	-	-	15,325,444
Equipment	<u>1,331,660</u>	<u>-</u>	<u>-</u>	<u>1,331,660</u>
Total capital assets being depreciated	<u>16,657,104</u>	<u>-</u>	<u>-</u>	<u>16,657,104</u>
Less accumulated depreciation for:				
Building and improvements	13,733,297	117,768	-	13,851,065
Equipment	<u>1,244,371</u>	<u>15,096</u>	<u>-</u>	<u>1,259,467</u>
Total accumulated depreciation	<u>14,977,668</u>	<u>132,864</u>	<u>-</u>	<u>15,110,532</u>
Governmental activities capital assets, net	<u>\$ 4,052,846</u>	<u>\$ (132,864)</u>	<u>\$ -</u>	<u>\$ 3,919,982</u>
	<u>July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2019</u>
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 22,966,200	\$ -	\$ -	\$ 22,966,200
Construction in progress	<u>77,647,616</u>	<u>37,333,764</u>	<u>(25,602,385)</u>	<u>89,378,995</u>
Total capital assets not being depreciated	<u>100,613,816</u>	<u>37,333,764</u>	<u>(25,602,385)</u>	<u>112,345,195</u>
Capital assets, being depreciated:				
Building and improvements	649,812,873	24,304,518	-	674,117,391
Equipment	<u>10,303,613</u>	<u>92,719</u>	<u>-</u>	<u>10,396,332</u>
Total capital assets being depreciated	<u>660,116,486</u>	<u>24,397,237</u>	<u>-</u>	<u>684,513,723</u>
Less accumulated depreciation for:				
Building and improvements	401,271,058	20,031,127	-	421,302,185
Equipment	<u>8,141,851</u>	<u>254,502</u>	<u>-</u>	<u>8,396,353</u>
Total accumulated depreciation	<u>409,412,909</u>	<u>20,285,629</u>	<u>-</u>	<u>429,698,538</u>
Business-type activities capital assets, net	<u>\$ 351,317,393</u>	<u>\$ 41,445,372</u>	<u>\$ (25,602,385)</u>	<u>\$ 367,160,380</u>

Hawaii Public Housing Authority

Notes to Financial Statements

June 30, 2019

5. Capital Assets (continued)

Current-period depreciation expense was charged to function as follows:

Governmental Activity - -	
Rental Housing and Assistance Program	<u>\$ 132,864</u>
Business-Type Activities:	
Federal Low Rent Program	16,860,260
Housing Revolving Fund	1,140,295
Housing for Elders Revolving Fund	1,592,615
Central Office Cost Center Fund	76,883
Internal Services	55,260
Others	<u>560,316</u>
Total depreciation expense - business type activities	<u>20,285,629</u>
Total depreciation expense	<u><u>\$ 20,418,493</u></u>

At June 30, 2019, capital assets for the proprietary funds consisted of the following:

	Enterprise Funds						Internal Service Funds	Total
	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center	Other Enterprise Funds	Total Enterprise Funds		
Land	\$ 13,093,629	\$ 2,252,881	\$ 6,104,817	\$ -	\$1,514,873	\$ 22,966,200	\$ -	\$ 22,966,200
Buildings and improvements	562,709,452	37,745,565	58,649,509	42,857	14,970,008	674,117,391	-	674,117,391
Equipment, furniture, and fixtures	5,650,698	995,117	1,036,396	602,399	-	8,284,610	2,111,722	10,396,332
Construction in progress	86,155,537	1,317,500	1,905,958	-	-	89,378,995	-	89,378,995
Less accumulated depreciation	<u>366,230,878</u>	<u>18,144,722</u>	<u>36,004,497</u>	<u>399,014</u>	<u>6,840,617</u>	<u>427,619,728</u>	<u>2,078,810</u>	<u>429,698,538</u>
Net property and equipment	<u><u>\$ 301,378,438</u></u>	<u><u>\$ 24,166,341</u></u>	<u><u>\$ 31,692,183</u></u>	<u><u>\$ 246,242</u></u>	<u><u>\$9,644,264</u></u>	<u><u>\$ 367,127,468</u></u>	<u><u>\$ 32,912</u></u>	<u><u>\$ 367,160,380</u></u>

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

6. Commitments and Contingencies

a. Lease Commitments

The Authority leases from the City and County of Honolulu the land upon which its former Banyan Street Manor Project building is situated on, and subleases it to the Project's new owner. The lease is for a term of 55 years beginning May 27, 2011. Lease rent in the amount of \$75 was prepaid by the new owner for the entire term of the lease. As part of the sales price of the Project building, reserves and operating funds on May 27, 2011, \$75 was allocated for the ground lease interest and other property, as defined in the agreement.

The Authority leases the land upon which its former Wilikina Apartments Project building is situated on to its new owner. The lease is for a term of 65 years beginning May 22, 2012. Lease rent in the amount of \$1 was prepaid by the new owner for the entire term of the lease.

b. Construction Contracts

At June 30, 2019, the Federal Low Rent Program fund and the Capital Projects fund had outstanding construction contract commitments to expend approximately \$16,491,000 and \$42,193,000, respectively, for the construction and renovation of housing projects.

c. Consulting Agreement

In conjunction with the sale of Kuhio Park Terrace Towers (see Note 4), the Authority entered into a consulting agreement with the developer to provide the developer with certain consulting services related to the rehabilitation of the Project. The consulting fee is 19.7 percent of the total development fee charged to the buyer by the developer, or \$3,176,488. As part of the initial sale agreement, the buyer is to receive state tax credits upon payment or release. If the buyer, in accordance with terms defined in the sale agreement, determines that unpaid state tax credits should be released, the Authority would be obligated to pay the buyer for these state tax credits up to its portion of the consulting fees earned and received. The Authority would be able to recover amounts paid to the buyer upon payment/release of the previously unpaid tax credits by the State.

In accordance with the consulting agreement, the amount paid to the Authority shall be held in an interest bearing escrow account by an escrow agent mutually agreed upon by the Authority and the buyer until the state tax credit release date. Approximately \$2,741,000 of restricted cash recorded under the Central Office Cost Center as of June 30, 2019 is held in an approved escrow account.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

6. Commitments and Contingencies (continued)

d. Torts

The Authority is involved in various actions, the outcome of which, in the opinion of management and the Attorney General, will not have a material adverse effect on the Authority's financial position except for the OHA lawsuit described below. Losses, if any, are either covered by insurance or will be a liability against the State of Hawaii.

e. Workers' Compensation Policy

The State is self-insured for workers' compensation. Accordingly, the Authority is liable for workers' compensation claims filed by its employees. The basis for estimating the liabilities for unpaid claims include the effects of specific incremental claim adjustment expenses, salvage and subrogation, and other allocated or unallocated claim adjustment expenses. These liabilities include an amount for claims that have been incurred but not reported. As of June 30, 2019, the Authority has determined there is not a significant liability for workers' compensation claims.

f. Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limitation. It may be taken only in the event of illness and is not convertible to pay upon termination of employment; accordingly, sick leave is not accrued in the accompanying statement of net position. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawaii (ERS). Accumulated sick leave at June 30, 2019 amounted to approximately \$4,845,000.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

6. Commitments and Contingencies (continued)

g. Litigation

OHA v. HHA et al., Civil No. 95-2682-07 (First Circuit)

On July 27, 1995, the Office of Hawaiian Affairs (OHA) and its Board of Trustees filed a Complaint for declaratory judgment and injunctive relief against the Hawaii Housing Authority (HHA) (since succeeded by the Authority), as described below, its Executive Director and Board of Commissioners, as well as the Department of Budget and Finance and its Director, to secure additional compensation and itemized account of sums previously paid to OHA for five specifically identified parcels of Ceded Lands. These Ceded Lands parcels had been transferred to the HHA for its use to develop, construct, and manage additional affordable public rental housing units under (now repealed) Hawaii Revised Statutes Chapter 201 G. The Authority, through its prior entity HHA, currently owns certain parcels of Ceded Lands identified in the lawsuit.

On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in *OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-02505-01 (1st Cir.). The September 12, 2001 decision of the Hawai'i Supreme Court (*OHA, et al. v. State of Hawaii*, 96 Hawaii 399 (2001)) includes elements, with which OHA disagrees, that would require dismissal of OHA's claims in *OHA v. HHA*. On November 12, 2018, State Defendants and the Plaintiffs executed and filed with the First Circuit Court a stipulation for dismissal with prejudice of all claims and parties to this case.

The Housing Finance and Development Corporation and the HHA were merged in the Housing and Community Development Corporation of Hawaii, after the above-described suits against them were filed. The corporation subsequently was bifurcated into the Hawaii Housing Finance and Development Corporation and the Authority.

Steven Rodrigues v. Corbit Ahn, et al., Civil No 10-1-1411-06 (1st Cir.)

In August 2009, Iris Rodrigues-Kaikana was murdered by Corbit Ahn at the Kamehameha Homes in Kalihi. Her body was discovered in an alley adjacent to the housing complex. The Complaint alleges, among other things, that the State: failed to secure, to properly monitor and light the premises; "encouraged hoodlums like Defendant Ahn to enter the premises"; removed gates to keep "gangsters" out; allowed sexual predators onto the premises"; and refused to enforce a curfew for hoodlums.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

6. Commitments and Contingencies (continued)

g. Litigation (continued)

Steven Rodrigues v. Corbit Ahn, et al., Civil No 10-1-1411-06 (1st Cir.) (continued)

A jury in the criminal case against Defendant Ahn found him guilty of Murder in the Second Degree and Sexual Assault in the Third Degree. He was sentenced on July 9, 2012 to a mandatory life term in prison.

The civil case was stayed from October 2012 to June 2015, pending completion of the appeal of Defendant Ahn's criminal conviction. The parties then completed a CAAP arbitration hearing where the arbitrator found the State not liable and Defendant Ahn 100% liable. Plaintiffs appealed.

In September 2018, the court granted the State, the Authority, and Kamehameha Homes' Motion for Summary Judgment as to all claims. The Plaintiff has not filed a final judgment in this case as the Plaintiff intends to re-file a Motion for Default Judgment against Defendant Corbit Ahn. As such, it remains unknown at this time if the Plaintiffs intend to appeal the order granting the motion for summary judgment.

McJerold William et.al. vs. Kiamalu Security Services, et.al., Civil No. 15-1-0388-3 (1st Cir.)

This case involves five separate incidents of alleged mistreatment by the security guards at Kalihi Valley Homes. Plaintiffs allege there were two assaults by Kiamalu Security Services (Kiamalu) security guards and three assaults by Universal Protection Services (UPS) security guards.

There had been an asset purchase of security companies. Kiamalu was the security guard company for the first two incidents including the William one. Then UPS bought Kiamalu, including its contract with the Authority.

Kiamalu's insurer has appointed counsel. UPS retained private counsel because of the large self-insured retention on the insurance it selected. UPS has not accepted the Authority's tender of defense. Instead, counsel for UPS, the Plaintiffs, and Kiamalu agreed to an early mediation. Although the Authority has not been served with the Complaint, the deputy attorney general attended the mediation, with the understanding that the Authority would not pay for the cost of the mediation and will would not be making any offer (as it understood that UPS is obligated under its contract with the Authority, and the facts), and there would not be any discovery requests aimed at the Authority before mediation. Following the mediation four Plaintiffs

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

6. Commitments and Contingencies (continued)

g. Litigation (continued)

McJerold William et.al. vs. Kiamalu Security Services, et.al., Civil No. 15-1-0388-3 (1st Cir.) (continued)

dismissed their claims against the Authority pursuant to these Plaintiffs' respective settlement agreement with UPS and Kiamalu in early 2018. In July 2019, the remaining Plaintiff dismissed his claims against UPS but the filed stipulation to dismiss did not include or reference the Authority. To clarify the court record, the Authority intends to file a stipulation that dismisses claims against the Authority and the State by the remaining Plaintiff.

Sophia Karsom, et al. v. State of Hawaii, et al. Civil No. 17-1-0843, First Circuit Court

Plaintiffs allege that an employee of the Authority driving an Authority maintenance vehicle struck a four year-old boy who was playing on the sidewalk in front of his home at 1555 Haka Drive, on or about August 26, 2016. The complaint alleges that the boy suffered a fractured pelvis, broken bones and internal injuries.

Following service in October 2017, the State, the Authority, and the employee answered the Amended Complaint. The State filed a third-party complain against the minor's grandmother, Cynthia Kaminaga. In January 2019, the court granted the employee's Motion for Summary Judgment. Discovery is ongoing. In October 2019, the depositions of the Plaintiffs and Third-Party Complainant Kaminaga were conducted. Depositions of the Plaintiff's mother and father are ongoing. Trial is scheduled for March 2, 2020.

7. Retirement Plan

a. Plan Description

Generally, all full-time employees of the State and counties are required to be members of the ERS, a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility, and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at ERS' website <http://www.ers.ehawaii.gov>.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

7. Retirement Plan (continued)

b. Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

Retirement Benefits

General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

7. Retirement Plan (continued)

b. Benefits Provided (continued)

Noncontributory Class (continued)

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

Death Benefits

For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and surviving dependent children (up to age 18) receive a benefit equal to a percentage of the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the surviving dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

7. Retirement Plan (continued)

b. Benefits Provided (continued)

Contributory Class for Members Hired prior to July 1, 2012

Retirement Benefits

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with 5 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75 percent of average final compensation multiplied by the years of credited services but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

Death Benefits

For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump-sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

7. Retirement Plan (continued)

b. Benefits Provided (continued)

Contributory Class for Members Hired After June 30, 2012

Retirement Benefits

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.

Disability and Death Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability.

Death benefits for contributory class members hired after June 30, 2012 are generally the same as those for contributory class members hired June 30, 2012 and prior.

Hybrid Class for Members Hired Prior to July 1, 2012

Retirement Benefits

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with 5 years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

7. Retirement Plan (continued)

b. Benefits Provided (continued)

Hybrid Class for Members Hired Prior to July 1, 2012 (continued)

Death Benefits

For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least 5 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Employees Hired After June 30, 2012

Retirement Benefits

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and EMTs may retire with 25 years of credited service at age 55.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

7. Retirement Plan (continued)

b. Benefits Provided (continued)

Hybrid Class for Employees Hired After June 30, 2012 (continued)

Disability and Death Benefits

Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

c. Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate for fiscal year 2019 was 19.00% for Authority employees. Contributions to the pension plan from the Authority was approximately \$2,816,000 for the fiscal year ended June 30, 2019.

Per Act 17 (SLH 2017), employer contributions from the State and counties are expected to increase over four years beginning July 1, 2017. The rate for Authority employees increased to 19.00% on July 1, 2018; and increases to 22.00% on July 1, 2019; and 24.00% on July 1, 2020.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

The payroll for all of the Authority's employees and employees covered by the plan was approximately \$14,709,000 for 2019.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

7. Retirement Plan (continued)

d. Pension Liabilities, Pension Expense, and Deferred Outflow of Resources and Deferred Inflow of Resources Related to Pensions

At June 30, 2019, the Authority reported a liability of \$37,880,199 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2018, the Authority's proportion was 0.28%, which was consistent with its proportion measured as of June 30, 2017.

There was no change in actuarial assumptions as of June 30, 2017 to June 30, 2018. There were no changes between the measurement date, June 30, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2019, the Authority recognized pension expense of \$5,185,094. At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 701,076	\$ (250,507)
Changes in assumptions	3,872,858	-
Net difference between projected and actual earnings on pension plan investments	-	(443,840)
Changes in proportionate and differences between Authority contributions and proportionate share of contributions	118,836	(311,580)
Authority contributions subsequent to the measurement date	<u>2,816,511</u>	<u>-</u>
Total	<u>\$7,509,281</u>	<u>\$ (1,005,927)</u>

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

7. Retirement Plan (continued)

d. Pension Liabilities, Pension Expense, and Deferred Outflow of Resources and Deferred Inflow of Resources Related to Pensions (continued)

At June 30, 2019, the \$2,816,511 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For the years ending June 30,	
2020	\$ 830,000
2021	830,000
2022	830,000
2023	830,000
2024	<u>366,843</u>
Total	<u>\$ 3,686,843</u>

e. Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions adopted by the ERS's Board of Trustees on December 12, 2016, based on the 2015 Experience Study for the five-year period from July 1, 2010 through June 30, 2015:

Inflation	2.50 percent
Payroll growth rate	3.50 percent
Investment rate of return	7.00 percent per year, compounded annually, including inflation

There were no changes to ad hoc postemployment benefits including cost of living allowances.

Post-retirement mortality rates are based on the 2016 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2016 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of RP-2014 mortality table based on the occupation of the member.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

7. Retirement Plan (continued)

e. Actuarial Assumptions (continued)

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with a replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS's Board of Trustees) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future nominal rates of return (real returns and inflation) by the target asset allocation percentage. The target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Strategic Allocation (risk-based classes)</u>	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Rate of Return</u>
Broad Growth	63%	7.1%
Principal Protection	7	2.5
Real Return	10	4.1
Crisis Risk Offset	<u>20</u>	4.6
	<u>100%</u>	

The discount rate used to measure the net pension liability was 7.00%, consistent with the rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the Authority will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

7. Retirement Plan (continued)

e. Actuarial Assumptions (continued)

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate.

	1 percent Decrease (6.00%)	Current Discount Rate (7.00%)	1 percent Increase (8.00%)
Authority's proportionate share of the net pension liability	\$ 53,445,760	\$ 37,880,199	\$ 30,901,375

f. Pension Plan Fiduciary Net Pension

The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. ERS's complete financial statements are available at <http://www.ers.ehawaii.gov>.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

8. Postemployment Health Care and Life Insurance Benefits

a. Plan Descriptions

The Authority provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the Authority contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues an annual financial report that is available to the public. The report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

For employees hired before July 1, 1996, the Authority pays the entire base monthly contribution for employees retiring with 10 years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the Authority makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the Authority pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the Authority pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the Authority pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the Authority makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the Authority pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service the Authority pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the Authority pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

b. Employees Covered by Benefit Terms

At July 1, 2018, the following number of plan members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	36,340
Inactive plan members entitled to but not yet receiving benefits	7,588
Active plan members	<u>50,519</u>
Total plan members	<u><u>94,447</u></u>

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

8. Postemployment Health Care and Life Insurance Benefits (continued)

c. State Policy

The actuarial valuation of the EUTF does not provide OPEB information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to allocate a portion of the State's net OPEB liability, deferred inflows and outflows, and OPEB expense, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State's Comprehensive Annual Financial Report. The basis for the allocation is the proportionate share of contributions made by each component unit or proprietary fund for retiree health benefits.

d. Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the Authority was approximately \$3,598,000 for the fiscal year ended June 30, 2019. The employer is required to make all contributions for members.

e. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, the Authority reported a net OPEB liability of approximately \$40,288,544. The net OPEB liability was measured as of July 1, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

There were no changes between the measurement date, July 1, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the net OPEB liability.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

8. Postemployment Health Care and Life Insurance Benefits (continued)

e. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

For the year ended June 30, 2019, the Authority recognized OPEB expense of approximately \$3,504,242. At June 30, 2019 the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ (724,536)
Changes in assumptions	438,512	-
Net difference between projected and actual earnings on pension plan investments	-	(55,447)
Authority contributions subsequent to the measurement date	<u>3,597,601</u>	<u>-</u>
Total	<u>\$4,036,113</u>	<u>\$ (779,983)</u>

At June 30, 2019, the \$3,597,601 reported as deferred outflows of resources related to OPEB resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the years ending June 30,	
2020	\$ (58,460)
2021	(58,460)
2022	(58,460)
2023	(58,460)
2024	(58,460)
Thereafter	<u>(49,171)</u>
Total	<u>\$ (341,471)</u>

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

8. Postemployment Health Care and Life Insurance Benefits (continued)

f. Actuarial Assumptions

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions adopted by the EUTF's Board of Trustees on January 8, 2018, based on the experience study covering the five year period ended June 30, 2015 as conducted for the ERS:

Inflation	2.50 percent
Salary Increases	3.50 percent to 7.00 percent including inflation
Investment Rate of Return	7.00 percent

Healthcare Cost Trend Rates

PPO*	Initial rate of 10.00 percent, declining to a rate of 4.86 percent after 13 years
HMO*	Initial rate of 10.00 percent, declining to a rate of 4.86 percent after 13 years
Contribution	Initial rates of 4.00 percent and 5.00 percent; declining to a rate of 4.70 percent after 12 years
Dental	Initial rate of 5.00 percent for the first three years, followed by 4.00 percent
Vision	Initial rate of 0.00 percent for the first three years, followed by 2.50 percent
Life Insurance	0.00 percent

*Blended rates for medical and prescription drug

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational mortality improvement.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

8. Postemployment Health Care and Life Insurance Benefits (continued)

f. Actuarial Assumptions (continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each asset class are summarized in the following table:

Asset Class	Target Allocation	Long- Term Expected Real Rate
U.S. Equity	15 %	5.05 %
Non-U.S. Equity	17	6.50
U.S. Microcap	7	7.00
Private Equity	10	8.65
Private Credit	6	5.25
Core Real Estate	10	4.10
Global Options	7	4.50
Core Bonds	3	1.30
Long Treasuries	6	1.90
Trend Following	9	3.00
Alternative Risk Premia	5	2.45
TIPS	5	0.75
	100 %	

g. Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00 percent, based on the expected rate of return on OPEB plan investments of 7.00 percent and the municipal bond rate of 3.62 percent (based on the daily rate closest to but not later than the measurement date of the Fidelity “20-year Municipal GO AA index”). Beginning with the fiscal year 2019 contribution, the Authority’s funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all

Hawaii Public Housing Authority

Notes to Financial Statements

June 30, 2019

8. Postemployment Health Care and Life Insurance Benefits (continued)

g. Single Discount Rate (continued)

projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

h. OPEB Plan Fiduciary Net Position

The OPEB plan's fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF's financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded on a trade-date basis. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued EUTF financial report. EUTF's complete financial statements are available at <http://eutf.hawaii.gov>.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

8. Postemployment Health Care and Life Insurance Benefits (continued)

i. Changes in Net OPEB Liability

The following table represents a schedule of changes in the net OPEB liability. The ending balances are as of the measurement date, July 1, 2018.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning Balance	\$ 43,288,352	\$ 3,392,420	\$ 39,895,932
Service Cost	948,455	-	948,455
Interest on the total OPEB liability	2,936,634	-	2,936,634
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(868,350)	-	(868,350)
Changes in assumptions	525,552	-	525,552
Employer contributions	-	2,825,229	(2,825,229)
Net investment income	-	325,516	(325,516)
Benefit payments	(1,429,888)	(1,429,888)	-
Administrative expense	-	(1,066)	1,066
Other	-	-	-
Net Changes	<u>2,112,403</u>	<u>1,719,791</u>	<u>392,612</u>
Ending balance	<u>\$ 45,400,755</u>	<u>\$ 5,112,211</u>	<u>\$ 40,288,544</u>

j. Sensitivity of Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following table presents the Authority's net OPEB liability calculated using the discount rate of 7.00 percent, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current discount rate:

	1 percent Decrease (6.00%)	Current Discount Rate (7.00%)	1 percent Increase (8.00%)
Authority's proportionate share of the net OPEB liability	\$ 47,630,727	\$ 40,288,544	\$ 34,519,389

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

8. Postemployment Health Care and Life Insurance Benefits (continued)

j. Sensitivity of Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates (continued)

The following table presents the Authority's net OPEB liability calculated using the assumed healthcare cost trend rate, as well as what the Authority's net OPEB liability would be if it were calculated using the trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	1 percent Decrease (6.00%)	Current Discount Rate (7.00%)	1 percent Increase (8.00%)
Authority's proportionate share of the net OPEB liability	\$ 34,204,971	\$ 40,288,544	\$ 48,183,688

9. Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but has the duty of due care that would be required of an ordinary prudent investor.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

10. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2019 is as follows:

Current Due from	Federal Low-Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Non-major Enterprise
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 57,437
Housing Choice Voucher	-	-	-	7,533	-
Federal Low Rent Program	-	-	-	1,584,356	-
Housing Revolving Fund	-	-	-	-	47,009
Housing for Elders Revolving Fund	-	-	-	-	44,368
Central Office Cost Center	88,157	-	-	-	-
Non-major - Enterprise	-	178,250	130,667	11,607,883	-
Total	<u>\$ 88,157</u>	<u>\$ 178,250</u>	<u>\$ 130,667</u>	<u>\$ 13,199,772</u>	<u>\$ 148,814</u>

Noncurrent Due to	Federal Low-Rent Program	Housing Revolving Fund
Central Office Cost Center	\$ 16,678,845	\$ 1,355,795

The current interfund receivable and payable balances are due to interfund services provided or reimbursable expenditures and payments between funds. The non-current balance represents the respective fund's share of the Authority's OPEB liability recorded under the Central Office Cost Center Fund as of year-end.

During 2019, the Authority wrote-off a previously accrued for payable to the State of Hawaii of approximately \$571,000. The amount was recorded, via interfund, as other revenue under the Central Office Cost Center.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

11. Net Transfers

The composition of net transfer balances reflected in the financial statements as of June 30, 2019 is as follows:

Transfer From	Federal Low-Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund
General Fund	\$ 2,884,369	\$ 967,443	\$ 2,004,524	\$ -
Capital Projects	152,685	-	41,420	3,442,284
Housing Revolving Fund	-	-	-	14,615
Housing for Elders Revolving Fund	-	-	-	318,618
Total	<u>\$ 3,037,054</u>	<u>\$ 967,443</u>	<u>\$ 2,045,944</u>	<u>\$ 3,775,517</u>

The following describes the transfers noted above:

General Fund: The General Fund expended approximately \$5,856,000 from the current year annual State of Hawaii appropriations to pay for rental housing service shortfalls under certain enterprise funds.

Capital Projects: The Capital Projects Fund expended approximately \$3,636,000 from the current year annual State of Hawaii appropriations to primarily pay for capital improvement administrative expenses and rental housing service repairs and maintenance under certain enterprise funds.

Housing Revolving Fund: The Housing Revolving Fund expended approximately \$15,000 to pay for administrative expenses under the Central Office Cost Center fund.

Housing for Elders Revolving Fund: The Housing for Elders Revolving Fund transferred approximately \$319,000 to pay for administrative expenses under the Central Office Cost Center fund.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2019

12. Capital Contributions

During 2019, the Capital Projects Fund and General Fund expended approximately \$28,750,000 and \$1,352,000, respectively, from the current year annual State of Hawaii appropriations to pay for capital outlays that were contributed to enterprise funds. During 2019, the Capital Projects Fund also expended \$375,000 from the current year annual State of Hawaii appropriations on behalf of Housing Solutions, Inc., a non-profit developer and manager of transitional and long-term affordable housing for the renovation of its Thomas Building facility. The composition of capital contribution balances reflected in the Proprietary Funds financial statements as of June 30, 2019 is as follows:

<u>Contributed From</u>	<u>Federal Low-Rent Program</u>	<u>Housing Revolving Fund</u>	<u>Housing Elders Revolving Fund</u>	<u>Total</u>
Capital Projects	\$ 26,447,816	\$ 949,597	\$ 1,352,568	\$ 28,749,981
General Fund	1,352,416	-	-	1,352,416
Housing Revolving Fund	939,943	-	-	939,943
Total	<u>\$ 28,740,175</u>	<u>\$ 949,597</u>	<u>\$ 1,352,568</u>	31,042,340
Capital Projects				<u>375,000</u>
				<u>\$ 31,417,340</u>

For the government-wide, statement of activities, these amounts have been reflected as transfers.

**Required Supplementary Information
Other Than Management's Discussion and Analysis**

Hawaii Public Housing Authority

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2019

	General Fund		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>
Revenues -			
State allotted appropriations	<u>\$ 8,372,030</u>	<u>\$ 8,372,030</u>	<u>\$ 8,372,030</u>
Expenditures -			
Rental housing and assistance program	<u>8,372,030</u>	<u>8,372,030</u>	<u>8,168,880</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 203,150</u>
	Housing Choice Voucher Program		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>
Revenues -			
HUD contributions	<u>35,152,564</u>	<u>\$ 35,152,564</u>	<u>\$ 35,152,564</u>
Expenditures -			
Rental housing and assistance program	<u>35,152,564</u>	<u>35,152,564</u>	<u>36,408,599</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,256,035)</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR GOVERNMENTAL FUNDS (continued)

Year Ended June 30, 2019

	<u>Section 8 Contract Administration</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>
Revenues -			
HUD contributions	<u>\$ 35,973,350</u>	<u>\$ 35,973,350</u>	<u>\$ 35,973,350</u>
Expenditures -			
Rental housing and assistance program	<u>35,973,350</u>	<u>35,973,350</u>	<u>35,630,367</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 342,983</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
BUDGET-TO-GAAP RECONCILIATION

Year Ended June 30, 2019

	<u>General Fund</u>	<u>Housing Choice Voucher Program</u>	<u>Section 8 Contract Administration</u>
Excess (deficiency) of revenues over (under) expenditures and other sources and uses - actual on budgetary basis	\$ 203,150	\$ (1,256,035)	\$ 342,983
Reserve for encumbrance at year end*	2,461,726	-	-
Expenditures for liquidation of prior year's encumbrances	(3,057,689)	-	-
Reversion of prior year's allotments	(203,150)	-	-
Accrual adjustments, operating transfers and other	<u>(540,187)</u>	<u>758,529</u>	<u>(52,362)</u>
 (DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES AND OTHER USES - US GAAP BASIS	 <u>\$ (1,136,150)</u>	 <u>\$ (497,506)</u>	 <u>\$ 290,621</u>

* Amount reflects the encumbrance balance included in continuing appropriation.

See accompanying independent auditor's report.

Hawaii Public Housing Authority

Schedule of the Authority's Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Authority's proportion of the net pension liability	0.28%	0.29%	0.29%	0.29%	0.29%	0.29%				
Authority's proportionate share of the net pension liability	\$ 37,880,199	\$ 37,036,049	\$ 38,216,244	\$ 25,085,181	\$ 23,355,937	\$ 25,740,677				
Authority's covered-employee payroll	14,806,198	14,516,008	13,576,230	13,759,120	12,683,355	11,885,355				
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	255.84%	255.14%	281.49%	281.49%	182.32%	216.57%				
Plan fiduciary net position as a percentage of the total pension liability	55.48%	54.80%	51.28%	62.42%	63.92%	57.96%				

*This data is presented for years for which information is available

See accompanying independent auditor's report.

Hawaii Public Housing Authority

Schedule of the Authority's Pension Contributions
Last 10 Fiscal Years*

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 2,816,511	\$ 2,510,750	\$ 2,348,866	\$ 2,172,048	\$ 2,159,495	\$ 1,965,345	\$ 1,788,664	\$ 1,571,123	\$ 1,536,848	
Contributions in relation to the contractually required contribution	(2,816,511)	(2,510,750)	(2,348,866)	(2,172,048)	(2,159,495)	(1,965,345)	(1,788,664)	(1,571,123)	(1,536,848)	
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Authority's covered-employee payroll	\$ 14,709,141	\$ 14,806,198	\$ 14,516,008	\$ 13,576,230	\$ 13,759,120	\$ 12,683,355	\$ 11,885,355	\$ 10,400,580	\$ 9,850,368	
Contributions as a percentage of covered-employee payroll	19.15%	16.96%	16.18%	16.00%	15.70%	15.50%	15.05%	15.11%	15.60%	

*This data is presented for years for which information is available

See accompanying independent auditor's report.

Hawaii Public Housing Authority

Notes to the Schedule of the Authority's Pension Contributions
Year ended June 30, 2019

Contribution rates are a percentage of pensionable payroll and are set by statute based on the recommendation of the ERS actuary. Act 256/2007 established contribution rates beginning July 1, 2008 through June 30, 2012. Act 163/2011 established new contribution rates beginning July 1, 2012 through July 1, 2015. Act 17/2017 established new contribution rates beginning July 1, 2018 until statutory changes are implemented. Contribution rates by year are as follows:

<u>Effective Starting</u>	<u>General Employees</u>
July 1, 2020	24.0%
July 1, 2019	22.0%
July 1, 2018	19.0%
July 1, 2017	18.0%
July 1, 2015	17.0%
July 1, 2014	16.5%
July 1, 2013	16.0%
July 1, 2012	15.5%
July 1, 2011	15.0%

Act 152/2012 amended the definition of compensation for new employees hired after June 30, 2012 for the purpose of pension benefit calculations. Compensation is defined as normal periodic payments and does not include overtime, supplemental payments, bonuses, lump sum salary differentials and other types of differentials. For employees hired prior to July 1, 2012 compensation includes overtime, supplemental payments, bonuses and other types of differentials for the purpose of pension benefit calculations.

Act 153/2012 requires employers to pay additional contributions for those employees who retire on or after July 1, 2012 with significant "non-base pay" increase in the three or five years used to calculate their average final compensation and maximum retirement allowances. The amount is determined by comparing the maximum retirement allowance that would have been received without the significant non-base pay increase to the actual maximum allowance. These amounts are assessed, on a fiscal year basis, for all retirees meeting the criteria during the previous fiscal year.

Hawaii Public Housing Authority

Schedule of the Authority's Proportionate Share of the Changes in Net OPEB Liability and Related Ratios
Last 10 Fiscal Years*

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total OPEB Liability										
Service cost	\$ 948,455	\$ 733,947								
Interest on the total OPEB liability	2,936,634	2,228,580								
Changes of benefit terms	-	-								
Difference between expected and actual experience of total OPEB liability	(868,350)	-								
Changes of assumptions	525,552	-								
Benefit payments	<u>(1,429,888)</u>	<u>(1,101,878)</u>								
Net change in total OPEB liability	2,112,403	1,860,649								
Total OPEB liability - beginning	<u>43,288,352</u>	<u>41,427,703</u>								
Total OPEB liability - ending	<u>\$ 45,400,755</u>	<u>\$ 43,288,352</u>								
Plan fiduciary net position										
Employer contributions	\$ 2,825,229	\$ 2,191,159								
Net investment income	325,516	219,382								
Benefit payments	(1,429,888)	(1,101,878)								
OPEB plan administrative expense	(1,066)	(561)								
Other	<u>-</u>	<u>17,616</u>								
Net change in plan fiduciary position	1,719,791	1,325,718								
Plan fiduciary net position - beginning	<u>3,392,420</u>	<u>2,066,702</u>								
Plan fiduciary net position - ending	<u>\$ 5,112,211</u>	<u>\$ 3,392,420</u>								
Net OPEB liability - ending	\$ 40,288,544	\$ 39,895,932								
Plan fiduciary net position as a percentage of total OPEB liability	11%	8%								
Covered-employee payroll	14,806,198	14,516,008								
Net OPEB liability as a percentage of covered-employee payroll	272%	275%								

*This data is presented for years for which information is available

See accompanying independent auditor's report.

Hawaii Public Housing Authority

Schedule of the Authority's OPEB Contributions
Last 10 Fiscal Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarially determined contribution	\$ 3,466,987	\$ 3,187,682								
Contributions in relation to the actuarially determined contribution	<u>3,597,601</u>	<u>2,825,229</u>								
Contributions deficiency (excess)	<u>\$ (130,614)</u>	<u>\$ 362,453</u>								
Authority's covered-employee payroll	\$ 14,709,141	\$ 14,806,198								
Contributions as a percentage of covered-employee payroll	23.57%	21.53%								

*This data is presented for years for which information is available

See accompanying independent auditor's report.

Hawaii Public Housing Authority

Notes to the Schedule of the Authority's OPEB Contributions
Year ended June 30, 2019

Actuarial Valuation Date	July 1, 2018
Actuarial Cost Method	Entry Age Normal
Amortization method*	Level percent, closed
Remaining amortization period	26 years
Asset valuation method	Market
Actuarial Assumptions	
Investment rate of return	7.00 percent
Projected salary increases	3.50 percent
Healthcare Cost Trend Rates	
PPO**	Initial rates of 6.60 percent and 9.00 percent, 4.86 percent after 14 years
HMO**	Initial rate of 9.00 percent, 4.86 percent after 14 years
Contribution	Initial rates of 2.00 percent and 5.00 percent, 4.70 percent after 14 years
Dental	3.50 percent
Vision	2.50 percent

* Closed bases are established at each valuation for new unfunded liabilities.

** Blended rates for medical and prescription drug.

Supplementary Information

Hawaii Public Housing Authority

COMBINING STATEMENT OF NET POSITION – NONMAJOR OTHER ENTERPRISE FUNDS

June 30, 2019

ASSETS	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Current Assets:					
Cash	\$ 457,201	\$ 353,455	\$ 11,777,754	\$ 5,742	\$ 12,594,152
Restricted cash	-	35,720	-	-	35,720
Tenant receivables, less allowance for doubtful accounts	-	19,053	-	-	19,053
Other receivables	-	4,072	5,374	-	9,446
Due from other funds	-	-	148,814	-	148,814
Total current assets	<u>457,201</u>	<u>412,300</u>	<u>11,931,942</u>	<u>5,742</u>	<u>12,807,185</u>
Capital Assets, less accumulated depreciation	<u>1,514,873</u>	<u>2,175,078</u>	<u>-</u>	<u>5,954,313</u>	<u>9,644,264</u>
Total assets	<u><u>\$ 1,972,074</u></u>	<u><u>\$ 2,587,378</u></u>	<u><u>\$ 11,931,942</u></u>	<u><u>\$ 5,960,055</u></u>	<u><u>\$ 22,451,449</u></u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF NET POSITION – NONMAJOR OTHER ENTERPRISE FUNDS (continued)

June 30, 2019

LIABILITIES AND NET POSITION	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Current Liabilities:					
Accounts payable	\$ -	\$ 30,360	\$ 54,821	\$ 164,920	\$ 250,101
Accrued expenses	-	-	-	137,023	137,023
Due to other funds	-	2,974	11,877,121	36,705	11,916,800
Security deposits	-	35,720	-	11,109	46,829
Deferred income	-	339	-	-	339
Total current liabilities	<u>-</u>	<u>69,393</u>	<u>11,931,942</u>	<u>349,757</u>	<u>12,351,092</u>
Net Position:					
Invested in capital assets, net of related debt	1,514,873	2,175,078	-	5,954,313	9,644,264
Unrestricted	<u>457,201</u>	<u>342,907</u>	<u>-</u>	<u>(344,015)</u>	<u>456,093</u>
Total net position	<u>1,972,074</u>	<u>2,517,985</u>	<u>-</u>	<u>5,610,298</u>	<u>10,100,357</u>
Total liabilities and net position	<u>\$ 1,972,074</u>	<u>\$ 2,587,378</u>	<u>\$ 11,931,942</u>	<u>\$ 5,960,055</u>	<u>\$ 22,451,449</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF REVENUES AND EXPENSES – NONMAJOR OTHER ENTERPRISE FUNDS

Year Ended June 30, 2019

	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Operating Revenues:					
Rental	\$ -	\$ 428,089	\$ -	\$ 180,902	\$ 608,991
Other	-	20,669	21,568	-	42,237
Total operating revenues	-	448,758	21,568	180,902	651,228
Operating Expenses:					
Depreciation	-	64,128	-	496,188	560,316
Administration	-	202,591	-	165,897	368,488
Provision for losses	-	-	-	-	-
Professional services	-	11,282	-	746	12,028
Insurance	-	-	-	15,823	15,823
Repairs and maintenance	-	125,182	-	202,711	327,893
Security	-	-	-	170,381	170,381
Utilities	-	116,745	-	177,607	294,352
Total operating expenses	-	519,928	-	1,229,353	1,749,281
Change in net position	\$ -	\$ (71,170)	\$ 21,568	\$ (1,048,451)	\$ (1,098,053)

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF CHANGES IN NET POSITION – NONMAJOR OTHER ENTERPRISE FUNDS

Year Ended June 30, 2019

	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Net Position at July 1, 2018	\$ 1,972,074	\$ 2,589,155	\$ (21,568)	\$ 6,658,749	\$ 11,198,410
Change in Net Position	<u>-</u>	<u>(71,170)</u>	<u>21,568</u>	<u>(1,048,451)</u>	<u>(1,098,053)</u>
Net Position at June 30, 2019	<u>\$ 1,972,074</u>	<u>\$ 2,517,985</u>	<u>\$ -</u>	<u>\$ 5,610,298</u>	<u>\$ 10,100,357</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR OTHER ENTERPRISE FUNDS

Year Ended June 30, 2019

	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Cash Flows from Operating Activities:					
Cash received from renters	\$ -	\$ 426,649	\$ -	\$ 180,902	\$ 607,551
Cash payments to suppliers	-	(452,304)	-	(449,697)	(902,001)
Cash receipt from (payments to) other funds	-	2,974	(1,063,026)	36,705	(1,023,347)
Other	-	20,802	(79,889)	-	(59,087)
	<u>-</u>	<u>(1,879)</u>	<u>(1,142,915)</u>	<u>(232,090)</u>	<u>(1,376,884)</u>
Net cash used in operating activities	-	(1,879)	(1,142,915)	(232,090)	(1,376,884)
Net decrease in cash	-	(1,879)	(1,142,915)	(232,090)	(1,376,884)
Cash at July 1, 2018	<u>457,201</u>	<u>391,054</u>	<u>12,920,669</u>	<u>237,832</u>	<u>14,006,756</u>
Cash at June 30, 2019	<u>\$ 457,201</u>	<u>\$ 389,175</u>	<u>\$ 11,777,754</u>	<u>\$ 5,742</u>	<u>\$ 12,629,872</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR OTHER ENTERPRISE FUNDS (continued)

Year Ended June 30, 2019

	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Cash Flows from Operating Activities:					
Reconciliation of operating (loss) income to net cash used in operating activities:					
Operating (loss) income	\$ -	\$ (71,170)	\$ 21,568	\$ (1,048,451)	\$ (1,098,053)
Adjustments to reconcile operating (loss) income to net cash used in by operating activities:					
Depreciation	-	64,128	-	496,188	560,316
Changes in assets and liabilities:					
Tenant receivables	-	(907)	-	-	(907)
Due from other funds	-	-	(148,476)	-	(148,476)
Prepaid expenses and other assets	-	33	-	-	33
Other receivables	-	100	4,686	-	4,786
Accounts payable	-	12,699	(84,575)	164,920	93,044
Accrued expenses	-	(9,203)	(111)	118,548	109,234
Due to other funds	-	2,974	(364,605)	36,705	(324,926)
Due to State of Hawaii	-	-	(571,402)	-	(571,402)
Security deposits	-	760	-	-	760
Deferred income	-	(1,293)	-	-	(1,293)
Net cash used in operating activities	<u>\$ -</u>	<u>\$ (1,879)</u>	<u>\$ (1,142,915)</u>	<u>\$ (232,090)</u>	<u>\$ (1,376,884)</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF NET POSITION – INTERNAL SERVICE FUNDS

June 30, 2019

ASSETS	Equipment Rental	Vehicle Rental	Total
Current Assets:			
Cash	\$ 767,116	\$ 594,267	\$ 1,361,383
Accrued interest receivable	15,776	10,838	26,614
Total current assets	782,892	605,105	1,387,997
Capital Assets, less accumulated depreciation	313	32,599	32,912
Total assets	<u>\$ 783,205</u>	<u>\$ 637,704</u>	<u>\$ 1,420,909</u>
LIABILITIES AND NET POSITION			
Net Position:			
Invested in capital assets	\$ 313	\$ 32,599	\$ 32,912
Unrestricted	782,892	605,105	1,387,997
Total net position	783,205	637,704	1,420,909
Total liabilities and net position	<u>\$ 783,205</u>	<u>\$ 637,704</u>	<u>\$ 1,420,909</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF REVENUES AND EXPENSES AND
CHANGES IN NET POSITION – INTERNAL SERVICE FUNDS

Year Ended June 30, 2019

	Equipment Rental	Vehicle Rental	Total
Operating Revenue - Rental	\$ 4,794	\$ 52,499	\$ 57,293
Operating Expenses:			
Professional services	612	612	1,224
Depreciation	3,672	51,588	55,260
Other	-	-	-
Insurance	940	-	940
Total operating expenses	5,224	52,200	57,424
Operating (loss) income	(430)	299	(131)
Nonoperating Revenues --			
Interest income	17,214	12,063	29,277
Total nonoperating revenues	17,214	12,063	29,277
Change in net position	16,784	12,362	29,146
Net Position at July 1, 2018	766,421	625,342	1,391,763
Net Position at June 30, 2019	\$ 783,205	\$ 637,704	\$ 1,420,909

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS

Year Ended June 30, 2019

	Equipment Rental	Vehicle Rental	Total
Cash Flows from Operating Activities -			
Cash receipts from other funds	\$ 12,363	\$ 105,674	\$ 118,037
Other cash payments	(1,552)	(612)	(2,164)
Net cash provided by operating activities	<u>10,811</u>	<u>105,062</u>	<u>115,873</u>
Cash Flows from Investing Activity -			
Receipts of Interest	<u>6,247</u>	<u>4,012</u>	<u>10,259</u>
Net cash provided by investing activity	<u>6,247</u>	<u>4,012</u>	<u>10,259</u>
Net increase in cash	17,058	109,074	126,132
Cash at July 1, 2018	<u>750,058</u>	<u>485,193</u>	<u>1,235,251</u>
Cash at June 30, 2019	<u><u>\$ 767,116</u></u>	<u><u>\$ 594,267</u></u>	<u><u>\$ 1,361,383</u></u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS (continued)

Year Ended June 30, 2019

	<u>Equipment Rental</u>	<u>Vehicle Rental</u>	<u>Total</u>
Cash Flows from Operating Activities:			
Reconciliation of operating (loss) income to net cash provided by operating activities:			
Operating (loss) income	\$ (430)	\$ 299	\$ (131)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities			
Depreciation	3,672	51,588	55,260
Changes in assets and liabilities Due from other funds	<u>7,569</u>	<u>53,175</u>	<u>60,744</u>
Net cash provided by operating activities	<u>\$ 10,811</u>	<u>\$ 105,062</u>	<u>\$ 115,873</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

RECONCILIATION OF CASH

June 30, 2019

The Authority's cash consists of the following as of June 30, 2019:

Equity in State Treasury investment pool - Gov't Wide	\$ 19,070,003
Cash in banks	<u>82,271,218</u>
	<u>\$ 101,341,221</u>

Total cash is in agreement with the State Comptroller's central accounting records as of June 30, 2019, as reconciled below:

	<u>Appropriation symbol</u>	<u>June 30, 2019</u>
Cash in State Treasury		
Special Funds	S-14-337-K	\$ 22,805
	S-15-337-K	61,637
	S-16-337-K	69,522
	S-17-337-K	294,303
	S-18-337-K	251,804
	S-19-337-K	3,836,949
	S-19-335-K	594,267
	S-19-336-K	767,116
	S-13-308-K	2,813
	S-14-308-K	1,910
	S-16-308-K	4,995
	S-17-308-K	86,999
	S-18-308-K	78,088
	S-19-308-K	1,036,009
	S-19-332-K	11,736,170
Trust Funds	T-11-913-K	353
	T-14-913-K	33,128
	<u>T-15-913-K</u>	<u>8,103</u>
Total cash held in State Treasury as reported by State Comptrollers accounting records carried forward		18,886,971

See accompanying independent auditor's report.

Hawaii Public Housing Authority

RECONCILIATION OF CASH (continued)

June 30, 2019

	<u>Appropriation symbol</u>	<u>June 30, 2019</u>
Subtotal brought forward		<u>18,886,971</u>
Reconciling items - -		
Deposit in transit not recorded by DAGS		<u>183,032</u>
		<u>183,032</u>
Cash held outside State Treasury:		
Cash in bank		<u>82,271,218</u>
Cash on statement of net position		<u><u>\$ 101,341,221</u></u>

See accompanying independent auditor's report.